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MKT725

Services Marketing

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SERVICES MARKETING**Introduction**

The field of services marketing came into limelight in the 1980s. Ever since then it continues to gain more importance. Its significance can be viewed from its contribution to the gross domestic product (GDP) of various countries. In Pakistan, services constitute more than 50% toward the GDP of the country. This clearly indicates the number of jobs services are creating in the country.

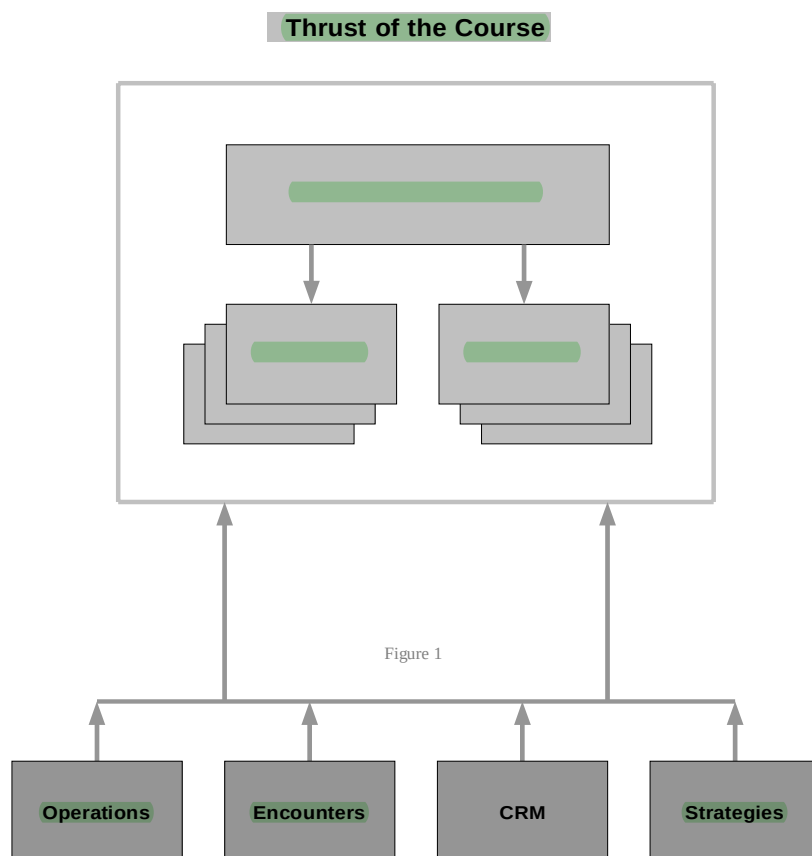
It was in the late 1970s and 80s that the economy of the United States witnessed deregulation of service industries like airlines, banking, telecommunications and others. The regulations relating pricing were withdrawn, which gave rise to customer-focused marketing management. British economy underwent a well-planned privatization program of many of its industries including services. The changes led to transformation of those industries in the way they conducted their marketing and overall business management. Creation and management of service products gained momentum and strengthened the process of services marketing.

In Pakistan, privatization of Pakistan Telecommunications Limited (PTCL) along with growth of the telecommunications industry with liberal and customer-friendly regulations has changed the rules of marketing altogether. In addition to aggressive marketing by cell phone companies on the market, PTCL, the provider of fixed line services has transformed its strategies from that of a typical governmental seller to a marketing and customer-focused company. The efficiency of the corporation is improving and it is emerging as the provider of not just one service, but a package of services like telephone, internet and a host of products emanating from the internet. What is significant is a changed face of marketing and competition as a result of combined impact of market forces along with technological and political pressures.

Pure services like banking, insurance, telecommunications, utilities, and courier to name a few attracted marketing practices tailored specially to their business structures. Similarly, hybrid services like fast food restaurants, airline tickets, cargo handling, logistics, and health services necessitated a fresher look by marketing managers for handling such services. The fundamentals of services marketing are not radically different from those of goods marketing. There are certain additions and adaptations to them in order for marketing people to manage marketing of services more realistically.

The whole practice of services marketing revolves around creating and retaining customers through consistent quality standards. These tasks require more vigilance of quality parameters and concentration on standardizing procedures for delivering services that are not tangibly visible as opposed to physical goods.

Service sector is assuming increasing importance in the economies of most of the countries. Economists' forecasts indicate that more growth is envisaged in



This course is going to educate us on why has there been a need for marketing of services as a separate area; why have business managers to redefine the marketing mix of services; what those mixed variables are; and what detailed mix of ingredients are there to those variables of services marketing mix?

To get convincing answers to the sequential questions cited above, the course is going to get into multi-nature aspects of service operations, the dynamics of service encounters (the interaction between service providers and customers), customer relationship management, and service strategies.

There are some additions to the variables of marketing mix for services marketing and we shall logically see what those are! The greatest challenge that marketers face in services is that of quality. Going through the strategic part of the course we shall further see how different combinations and intensities of the variables of marketing mix will help us cope with the challenge.

Learning Objectives

The following learning objectives will be achieved by the completion of the course.

- Define characteristics of services and learn the elements of marketing mix for services.
- Highlight the significance of the pre- and post-purchase process for services in view of the components and types of risks involved in the purchase of services.
- Develop an understanding of consumer expectations and how to cope with those through the practices of services during the pre- and post-purchase phases.
- Understand the basic determinants of quality and the basic principles that underlie the concept of service quality.
- Understand various operational positions during service selling and identification of the right strategies.
- Learn how service providers can use internal marketing, its significance, and its payoff in developing a customer-focused service culture.
- Learn to develop the right servicescape and enhance its impact for customer retention and profitability.
- Understand the determinants of pricing and the role it plays in marketing of services.
- Understand the dynamics of channel structures, distribution management, and distribution growth strategies available to a service firm.
- Learn to develop competitive advantage by a firm and related marketing strategies to sustain that advantage.
- Know the importance of managing supply and demand. Learn techniques to manage supply and the tools to manage demand with the objective to enhance service productivity.
- Understand and appreciate the accuracy and appropriateness of effective communication programs with special emphasis on the importance of integrated marketing communication programs.
- Learn to develop customer value package, develop brand loyalty, and retain customers.

- Become skilled at evaluating service performance through measurement dynamics.
- Be trained to know which dimensions of services serve as the best performance measures.

The Instructional Design

The course consists of forty five lectures. All lectures are supplemented by lecture notes, which should be studied by the students preferably prior to the delivery of lecture. Lectures will be much more graspable if students heed to this advice.

Students are also urged to freely use dictionary wherever use is felt, not leaving meanings of unfamiliar words to speculation or guess work. All business terms and jargons worthy of explanations are expressed in plain meanings either inside of or at the end of the lecture notes. The appearance of such terms, however, tends to diminish as lectures progress along the course for obvious reasons of enhanced understanding.

Quite a few examples relating service marketing concepts have been quoted for an easy understanding. Students are advised to comprehend concepts in the light of not only the quoted examples, but are also urged to stir up examples from their own observations and experience. The real objective of the course is not memorizing the concepts; it is real understanding and learning!

The Course Resource

A few popular books on the subject of services marketing have been chosen to impart the requisite knowledge. Instructor's experience in the field of overall marketing (both goods and services) has been an instant resource to draw upon for the benefit of students.

Following is the list of books suggested for reading and references:

The main text book

“Services Marketing – Integrating Customer Focus Across The Firm” by Valarie A. Zeithaml and Mary Jo Bitner: McGraw Hill

Other suggested readings

“Services Marketing, 2e – Operation, Management, and Strategy” by Kenneth E. Clow, Ph.D. and David L. Kurtz, Ph.D.: Biztantra – Innovation in Management

“Services Marketing – A Management Perspective” by Rod McColl, Bill Callaghan, and Adrian Palmer: McGraw Hill

SERVICES MARKETING**Introduction**

This lecture highlights the factors responsible for growth of services and the types of services marketers deal with. Starting with tangible goods carrying elements of services to those services which are pure, the content looks into the different types with a sense of subtle differentiation among them.

The importance of the services sector and its growth

It is seen that more an economy is advanced, the larger the service sector. This owes basically to factors like higher per capita income, advancement in technology, a larger portion of working women, and a modern lifestyle.

Per Capita Income - PCI: Higher PCI is an indication of rich economy in which labor costs are higher and hence ordinary services like housekeeping cannot be performed by traditional workforce. The society may need firms specializing in offering such services on daily or weekly basis.

Technology: It has given rise to delivery of efficient services with the advancement in computers and telecommunication. Technology is employed in managing voluminous services that otherwise have become difficult to handle by humans due to sheer volumes. As an example, even a telephone number inquiry is assisted by a certain level of technological support before the required number is communicated promptly. Reservation and billing systems relating airline and hotel bookings, utility bills, and credit card account statements are all examples of how technology is helping the service sector grow exponentially.

The benefits of technology are not confined to large companies. The power of information technology has presented a host of opportunities to individuals to integrate themselves into bigger groups of professionals, while they work and offer their services from the confines of their homes or small private offices. Such services could range from teaching to web development to preparation of professional business presentations to consultancies of various kinds.

Women Factor: The more women work in a society the greater is demand for services that are generally performed by housewives. Baby sitting and the need to send kids to pre-nursery schools stem from the fact that working women cannot attend to tasks performed by their non-working peers. All the factors discussed lead toward a modern lifestyle that deviates from traditions and hence lays ground for a budding services market.

Outsourcing: Another contemporary happening that has given rise to services industries is what is known as “outsourcing”, buying services from another company and saving your company the cost and related challenges. The more companies are becoming cost conscious and leaner in their management structures, the more importance many support functions are getting. For example, companies outsource services like computer operations, janitorial and maintenance, warehousing and inventory management, and even human resource solutions to other companies. All these are building up industries providing such services. Companies have realized that outsourcing such services to other companies is far more economical than the payroll and capital costs of performing them inside¹.

Types of services

Services can be categorized as pure services and hybrid services. The above examples relating housekeeping, schooling, banking services and utilities fall within the domain of pure services. Services offered in support of tangible goods can be categorized as hybrid services. After sales service offered by a garage in support of a company's car models is an example of a hybrid service.

Not all services are pure. They do contain elements of tangibility, meaning something in its physical form is associated with the service. Fast food restaurants are categorized as part of the service sector. The fact is

that food and its packaging are very tangible in nature. Similarly, there are tangible goods that are associated with services without the support of which those goods are not complete in economic and marketing terms. Sale of industrial and highly specialized technical equipment has to be supported by technical support from the supplier and hence carry an important element of service.

In short, not all services may be pure services and not all goods can be pure goods. What is of importance is to understand the service aspect without which something purely intangible or partially intangible cannot be effectively sold.

According to Theodore Levitt, a renowned marketing expert, “in almost every tangible pure physical product an intangible service component is associated.”². Therefore, says he, everybody is in service. Levitt has classified products into two categories, namely, *search goods* and *experience goods*.

Search goods are tangible products that exist physically and can be evaluated by way of a trial before a purchase is made. Experience goods are the services that can be evaluated only after a purchase has been made. Sampling in case of FMCGs (consumer consumables) and test runs and drives in case of consumer durables are examples of search goods, whereas travel, hotel experience, and health services are examples of experience goods.

To have a clear understanding of the level of tangibility and intangibility, following is a classification of goods-service relationship as given by Kotler³.

Pure tangible goods: These are like commodities or those branded consumer items that are very similar and to the purchase of which consumers do not attach importance to the service element.

Tangible goods with accompanying service: These are physical goods in the purchase of which tangible part is more dominant, but service also counts as an added advantage. This attracts customers in the evaluation and assessment of their purchase process and hence offers the seller a strategic advantage. Such an advantage becomes essential in present day's competitive world in which the level of technology enjoyed by almost all manufacturers is the same. The service offered in such a case is a support to the tangible product. The service takes on an added importance in view of its association with the tangible product. Free transportation and installation of air conditioners is an example of this phenomenon.

Hybrid: These are products in the purchase of which both the tangible product and the service get equal weightage. Restaurants are examples of this type of products. People patronize restaurants for good food as well as good service.

Service with accompanying tangible goods: Services under such transactions form the dominant part. Consumers buy services and not the accompanying tangible part. The tangible part carries importance to the extent of facilitating the consumer in his purchase evaluation of the service. For example, when a consumer buys an airline ticket, the upkeep of airplanes as tangible part of the service purchased carries importance. The large majority of services fall under this classification.

Pure service: Pure services are offerings that keep consumers interested only in an intangible service and not in the tangible part of it. Examples are consultancy, teaching, and advisory services (legal, accounting, and human resource etc.)

Summary

Services have been around for a long time. They, however, have assumed significance since the 1980s due to service sector becoming more and more competitive following privatization and deregulation of the service industries in the western markets.

Services form an integral part of many tangible goods. Many tangible goods without the support of good services do not carry a strategic competitive advantage. Offering good services with physical goods therefore is important to sustain the competitive advantage.

Services also offer themselves in pure form. It is the intangible part of services that we are concerned with in this course. That part is the one which is not a physical outcome of an economic activity; it is satisfaction of a need through an act, a deed, a process, or a performance.

Bibliography:

1. Valarie A. Zeithaml and Mary Jo Bitner, *“Services Marketing – Integrating Customer Focus Across The Firm”*, 3rd edition; McGraw Hill (35)
2. K. Rama Mohana Rao, *“Services Marketing”*, Pearson Education (3)
3. Philip Kotler, *“Marketing Management – Analysis, Planning, Implementation, and Control”*, 9th edition; Prentice Hall (467)

SERVICES MARKETING**Introduction**

Building on our understanding of different types of services, we, in this lecture, define services and go on to discuss their characteristics, which are the foundation stone of all the ensuing concepts that we shall cover in this course. However, for a better understanding of the characteristics, an attempt is made to explain three different types of marketing approaches preceding characteristics as “internal marketing”, “interactive marketing”, and “relationship marketing”. This develops our insight to more logically looking into the characteristics of services and the answer to the question, why services marketing?

The tangibility spectrum

Accompanying is a graphic presentation of the tangibility spectrum, which shows various products as they belong to the spectrum in terms of their tangibility or intangibility. With this understanding, we can easily sum up the concept of services by way of defining it in relation to the search or experience qualities of services.

Definition of services

According to Zeithaml and Bitner, *services are deeds, processes, and performances*.¹ One of the most concise and yet full definitions; it says it all about services. Regardless of the level of intangibility, services are products delivered in either of the forms of the definition.

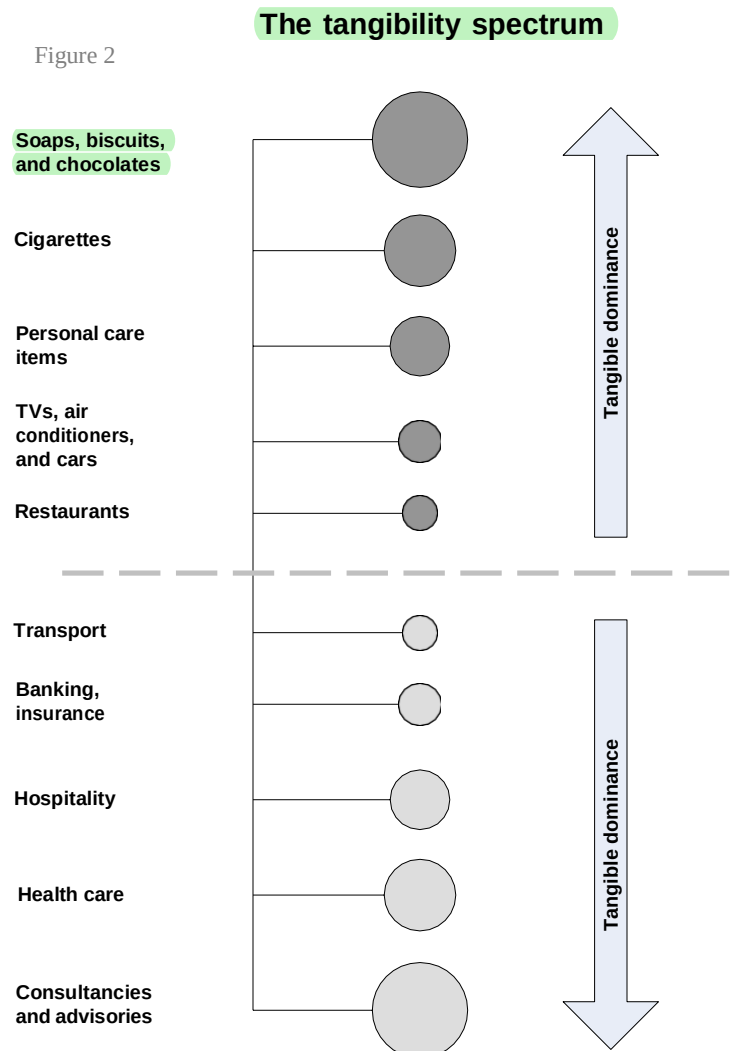
Firms of attorneys and accountants offer deeds, while utility and banking firms follow certain standardized processing of data to offer you the desired outcome as a bill or accounts. Theatres and show businesses are engaged in selling performances. All are (service) products sold to customers within their respective markets.

There are quite a few differing definitions on the subject by experts. The objective of this lecture is not to get into a critical appraisal of the definitions. It rather is to understand that a service basically is an activity whose result is not a physical product. It is something intangible that addresses your need and fulfills demand. It is produced and sold at the same place mostly at the time of placement of order.²

Why services marketing?

As a result of the evolution of services owing to reasons discussed earlier, business managers got more and more into the conceptual and practical side of marketing to face growing competition. They tried to replicate the concepts as were established in the marketing of tangible consumer goods.

Figure 2



Attempting to handle practical problems in the services area, the managers realized that the area was different from what they have been used to relating tangible goods. This meant a realization on their part of factors that were not only different but existed in addition to the ones they had been dealing with. This gave rise to new concepts and approaches in dealing with the area of services.

The experts found a few convincing reasons why a tangible goods marketing model could not be overlaid in the area of intangible services. First, it owed to the fact that in a service firm operations are *closely intertwined* with marketing and both have to be performed simultaneously. Think of a fast food restaurant in which placement of order and delivery of it get performed at the same time. In other words, the production process for the service is an instantaneous part of marketing from this particular standpoint.

The second reason for the difference between goods and services is the need for a *person-to-person contact* between the customer and the service provider. This is not the case in goods where producers and consumers hardly ever get into a direct contact.

For the third reason that services cannot be stored on shelves, the strategic implications of even the variables common between goods and services are different.

It is these differences that first of all prompted two scholars from the Swedish School of Economics, Finland to bring to the forefront the concepts such as internal marketing, relationship marketing, interactive marketing, and the idea that marketing is everyone's business. These concepts were introduced with some variables in addition to the traditional ones. British and the French joined the pioneers later in strengthening the concepts. The Americans adopted them wholeheartedly that gave the concepts a worldwide boost.³

Given the differences, the marketers got convinced that the area of services, despite having many commonalities with goods, had to be approached from a different angle, over and above the scope of goods marketing. Services therefore have a special makeup that necessitates a well-structured explanation of the following concepts that meaningfully affect the marketing programs.

Internal marketing

This is all about hiring the right people and then training and motivating them in line with company's values and objectives. Internal marketing describes the work done by the company to train and motivate its **employees to serve customers well**⁴. According to Leonard Berry, the most important contribution marketing department can make is to be exceptionally clever in making everyone else practice marketing⁵. 

The idea here is to make sure that employees of the company must be clear about the marketing goals. In an environment where operations and marketing are so closely interlinked that they have to be carried out almost simultaneously, the importance of everyone becoming a good marketing person cannot be emphasized.

Conditions have to be created by the top management in which all employees, regardless of their level, must understand what they are to deliver, get inspiration to deliver, and involve themselves with great passion in delivery of the service. Conviction on part of all about the quality of interaction with customers and quality of service delivered underlines the essence of internal marketing.

Good organization structures institutionalize internal marketing. This is done through creation of different committees comprising of personnel from different departments to approach their work and routines with a common objective in mind. Internal relationships take on as much importance, if not more, as external relationships with customers and stakeholders when it comes to delivering a service.

To achieve a structure that encourages the above, top management must take the charge and educate employees about company's objectives through speeches, in-house lectures, training programs, newsletters, and even advertising that approaches not only customers as part of external marketing, but also morally binds and commits employees to deliver the way company is communicating. An airline commercial

communicating airline's pride in maintaining its fleet of planes must motivate engineering and maintenance staff to excel in maintenance.

Interactive marketing

If internal marketing is all about creating and preparing an organization to effectively delivering a service, interactive marketing is all about making sure that it does happen. Everything happens during interaction and, therefore, interactive marketing is fundamentally real-time marketing. It is here that promises made by sellers are either kept or broken during interactions.⁶ Internal marketing is the cause whereas interactive marketing is the effect of that. Internal relationships are put to work in a way that all departments interact with the objective of achieving the goals of differentiation, operational excellence, and service quality. The goal of the company is to deliver a service of quality as expected by the customer, at a price that is competitive, and in a manner that the delivery is more efficient and productive than its competitive offerings.

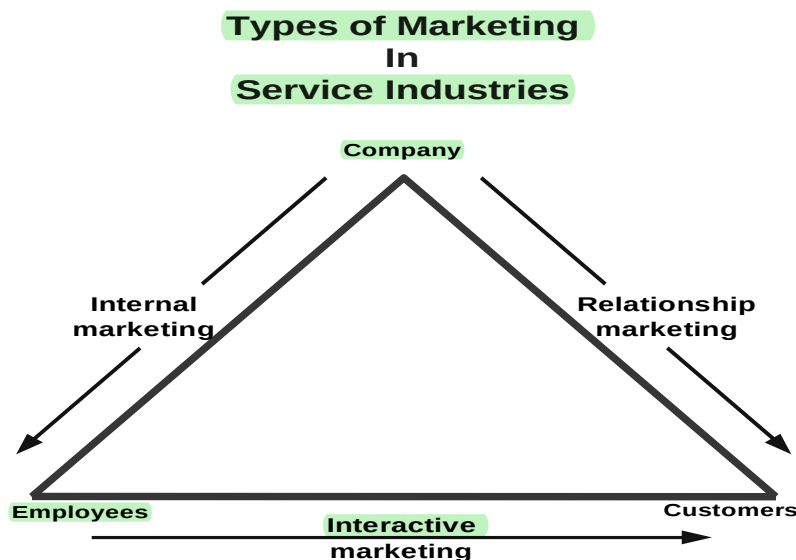
It is obvious that the goal will remain elusive unless its achievement is backed by an organization fully sold to the objectives of the company. While internal marketing lays the ground for such support, the achievement is the direct result of interactive marketing.

Relationship marketing

This refers to one-to-one interactive relationships to improve service encounters and retain company's customers. Many marketing experts see this as a return to marketing fundamentals by which sellers like to get into relationships with all those parties (mostly intermediaries) that assist in making a service deliverable with focus on the customer.

Most companies like to build relationships on a long-term basis to retain its customers. The retention comes through offering quality service at a good price. Loyalty programs by companies also are efforts toward the same goal. It has been experienced that creating new customers is far more expensive than retaining existing customers. According to Kotler, the final outcome of a relationship marketing effort is a unique company asset called a marketing network. A marketing network consists of a company's customers, suppliers, intermediaries, and employees etc.⁷ Relationship marketing brings all of them at the same wavelength and creates a whole that is bigger than the sum of its parts. All involved understand the goals of the company and work toward their achievement.

Figure 3



Characteristics of services

Intangibility: For the reason that services are deeds and processes, they cannot be seen, felt, or touched. Services are abstractions which cannot be directly examined before it is purchased. A prospective purchaser of most goods is able to study them for physical integrity, aesthetic appearance, taste smell, and other characteristics.⁸

The important implication of intangibility is evident in the purchase process for a service. There is no way that a service can be tested before it is purchased. The consumer has to wait until the service is purchased and consumed to assess its need-fulfillment qualities. The quality of a report prepared by a management consultant can be assessed only after it has been prepared and delivered. The uncertainty about the efficiency and hospitality dimensions of an “Umra” package offered by the operator can be judged only after you have performed the “Umra”.

To handle this intangible character of services, providers generally attempt to transform the intangible into tangible evidence by way of attractive offices, efficient workers, and simple, convincing, and foolproof procedures. A combination of physical evidence along with good professional workers and technology support to systems and procedures is developed to make the intangible tangible.

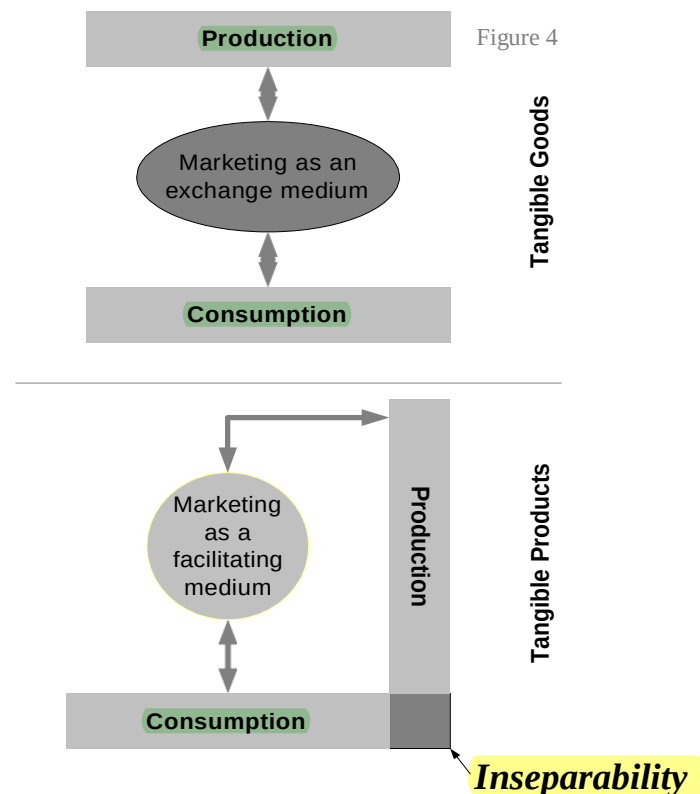
If a provider succeeds in turning the intangible into tangible, then by word of mouth good reputation of the service provider spreads to the benefit of the provider. Good reputation is an assurance for the customer’s sense of risk involved in buying a service.

Inseparability: It is hard to separate production of services from their consumption. The two activities have to occur at the same place after an order has been placed for the service. This is a stark contrast from goods in case of which the two activities of production and consumption are discretely different and take place at two different points chosen in view of the strategic implications of their variables of the marketing mix. A factory may be constructed at a physical location either because the location is close to the market or offers certain economic benefits resulting in reduced costs or production efficiencies. Goods may be sold at points keeping in view distribution intermediaries involvement in addition to consumers’ convenience.

Citing examples from the service area, you can imagine a fast food restaurant preparing the product to be served to you in the restaurant upon your placement of the order. A provider will process your request to deliver your order completing the production part of service

right in front of you. The production process therefore is very important for the customer who is present at the point of production and consumption. Owing to this critical nature of inseparability of services, customers become part of the production process.⁹

The above implies that consumer interaction with the service provider enables the consumer to assess the quality of service rendered. The provider (same person or a different one) has to provide the service in the best possible way each and every time. This service characteristic creates problems for the marketer in case of growth and expansion. The marketer has to ensure same quality of service at every point of sale. That is,



Rod McColl, Bill Callaghan, Adrian Palmer, "Services Marketing – A Managerial Perspective", McGraw Hill (49)

the production and consumption activities have to take place according to certain standards. Failing to meet standards, the customer-provider interaction will not be equally efficient and productive every time in case of every customer at different points of sale.

Some organizations take the support of technology to reduce the risks attached with human-to-human interaction. ATMs, credit cards, and tele-banking are attempts to minimize buyer-seller interactions.

Variability: This is an extension of the inseparability characteristic; it owes basically to the human element that is involved in producing the service. Do not forget that the customer is part of the production process because of his presence. It is quite very difficult to standardize a personal smile to every customer. It is also challenging to make every flyer equally comfortable while they are sitting at various parts of the plane in seats that offer different levels of comfort. A flyer sitting by the window may feel he is better served than the one who is cramped in the middle with not-too-decent neighbors on either side. A customer may not feel well-served every time he walks into a bank for a transaction.

The variability of service output can pose problems for brand building in services compared to tangible goods.¹⁰ While quality control procedures are incorporated into the system to monitor quality of physical products, the concentration in case of intangible services is on hiring, training, and motivation of the right quality human resource.

To cope with the problem of variability, companies, wherever possible, try to standardize their procedures and processes. Standard set of procedures are developed and followed to complete different procedures, thereby industrializing the process for the benefit of both the seller and the buyer. It is because of this industrialization that you can expect to have a burger at McDonald's of the same taste anywhere and at anytime.

This characteristic is also managed by getting into customization, which refers to offering what the customer wants. TGI Friday's, an American fast food chain uses a customization procedure to reduce the unwanted, random variability of the service.¹¹ Companies get into customization with the same objective of satisfying their customers, though with a different and challenging strategy.

Perishability: Services are perishable. They cannot be stored. What is not sold today is not saleable tomorrow. The best example is that of a flight that leaves with passengers making half the plane's capacity. Once the flight leaves, the unsold capacity goes waste.

This characteristic has implications for demand, supply, and capacity. The opposite side of perishability is evident on the supply side where demand exceeds supply. More customers turning up for a sporting event than the stadium can take exemplifies this phenomenon. Another example could be that of a hotel that attracts more tourists for occupancy during the peak season than the total capacity can take. Conversely, the hotel runs into problem of not operating at optimal occupancy during the slack period.

To tackle peaks and depressions of demand service firms formulate strategies that are a combination of attractive price and promotions to attract customers during slow periods of sales. This amounts to adjusting demand by moving it into the slow period through temporary inducements. That is, managing demand and supply in relation to peaks and troughs is a strategic challenge faced by the service firms. Firms in different industries can get into such a strategic mode given the dynamics of their industry and the make up of their physical existence. For example, a theatre can increase the number of shows to take more demand, whereas an airline may increase the number of flights during peak period. Both can get into promotions to attract customers during lean times. The theatre can introduce a show during working hours for non-working population at a lower price. The airline can offer a promotion during lean period to attract customers from other areas of the transportation market. Demand forecasting and planning capacity utilization are therefore important and challenging decision areas.¹²

Summary

For the reason that services are deeds, processes, and performances, it becomes obvious that the role of people working in a well-coordinated set up is of extreme importance. Being on the same page while working toward achieving the same goal for the organization, people from all departments can make invaluable contributions. They all must understand the operational as well as marketing goals in particular to make the customer experience a pleasant one. Hence, the need to understand the role different types of marketing effort plays should be understood by all.

The very nature of the definition also lets us look into the characteristics of services. They are intangible, inseparable, variable, and perishable. These characteristics have implications that require managers to consider services from a standpoint different from that of goods. Given that we cannot replicate the traditional model of marketing to services until we make certain adaptations to it.

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SERVICES MARKETING**Introduction**

The abovementioned characteristics give rise to many questions the answers to which should be found before we can determine the variables of services marketing mix. Obviously, the questions are challenging and emerge with the prime concern of satisfying customer's needs and fulfilling expectations with products that basically are not physical in shape and form.

Classification of services

If intangibility stirs questions of service design and product testing, then inseparability poses the challenge of having the right staff, savvy internal and interactive marketing. If variability poses challenges of standardization and quality maintenance, perishability is not far behind in creating inability of storing services.

According to Clow and Kurtz, business managers should approach the area by classifying services into different levels. These levels let us better understand the characteristics of services to effectively develop quality services and put together a relevant framework for their marketing. The classification scheme emphasizes consideration of the following factors for development and marketing of services¹.

1. Nature of organization
2. Nature of service
3. Customer relationship
4. Nature of demand
5. Service package
6. Delivery method

Nature of organization: The two most important aspects of this class are the purpose and the structure of the organization. While the purpose underlines the need an organization satisfies, the structure is a guide whether the organization is a proper setup for achievement of its mission and goals. While the purpose of fast food restaurants is to satisfy needs of individuals (in most of the cases), the purpose of insurance companies is to satisfy needs both of individuals as well as businesses. Both types of organizations are profit-driven. A charity or a social-work organization, conversely, is a non-profit setup and hence driven by motives and objectives entirely different from the ones harbored and pursued by for-profit setups.

The above implies that the structure of an organization has to stem from its purpose. A chain of hotels or a similar organization may have more support staff than the line one to make sure that internal and interactive marketing are in place. Support staff's role becomes very significant in ensuring that all standards and procedures are implemented and benchmarks met.

Structure basically is a system of task and reporting relationships that enables staff members to coordinate their activities toward achieving the goals. There are 4 determinants of the structure²:

- The external environment
- The strategy
- Technology
- HR

The external environment is the foremost determinant. If it is **unstable**, tough and challenging, then it is imperative to have a structure geared toward having quick communication and hence speedy decisions. The dynamics of a tough situation demand that people interact with each other and make a localized decision in light of their knowledge of the environment. Take the case of a multinational corporation. Having guidance from the regional offices of the corporation will take away the initiative from the local management and

work counter-productive from the standpoint of resource optimization, cost efficiency and profitability. It is therefore important to have a decentralized organization that can manage the situation better. Hospitality is an ideal example in which tough times dictate adjusting supply and demand and thus addressing the issue of perishability.

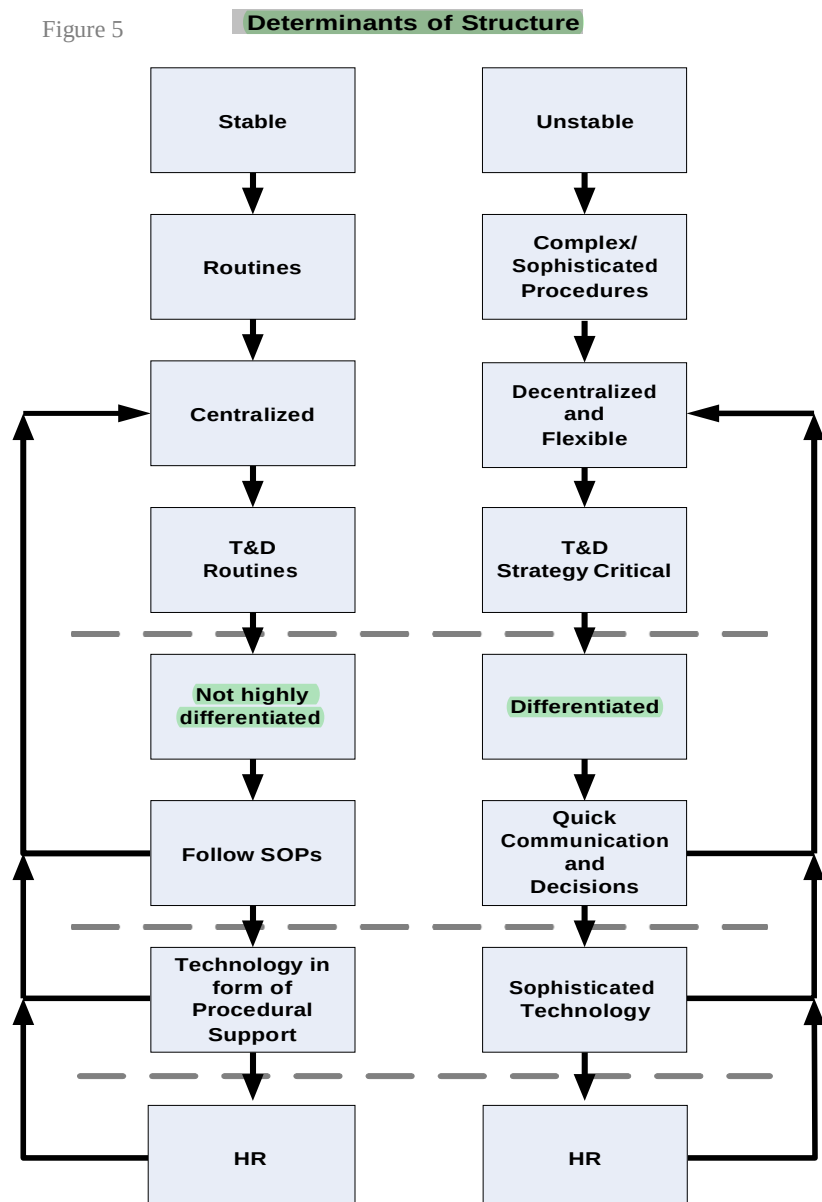
If, however, the environment is **stable** and consistently friendly or demand is not recession prone, it calls for simple routines and procedures, then it is better to have a centralized structure. This works on national as well as international scale. Fast food and courier services do not require strategy critical modifications and rather are rendered on a routine basis, centralized controls not only nationally but also internationally at times are preferred. Many decisions on the systems and procedures are taken in advance and the processes take place very mechanically. It leads to lean organizations which operate very mechanistically. Actually, this might make higher than average caliber managers frustrated and put off.

Whatever the structures, they have their own requirements for training staff. For complicated and strategy-critical systems, companies may like to have training programs geared toward knowledge workers within decentralized organizations. For routine systems in centralized organizations, they may like to train people at managerial as well as non-managerial levels. What is important to see here is that the structure has a bearing on internal and interactive marketing practices of the organization.

Strategy also calls for the right structure of the organization. Only the right structure will offer the requisite means to implement the strategy. The interplay of strategies as a determinant of structure is therefore different for different set-ups.

If a corporation strategically happens to have **differentiated products**, then the structure should be informal and flexible to allow the management to be innovative in its strategic responses. The responses could be in the shape of pricing, promotions and also certain innovations. Quick interaction among team members lays the ground for strategic moves. On the other hand, if a corporation sells **standardized products** like courier services, then the structure would be highly centralized to ensure consistency of operations at every branch of the corporation.

Figure 5



Technology is a combination of human skills, knowledge, and equipment. If technology is employed as a **procedural support**, then the structure may take a centralized shape, for the routines are pre-determined and steps are decided in an industrialized way. You may like to refer to a banking system that cannot afford flexibilities and has to follow the same routines for every procedure followed for banking transactions of different kinds.

If technology is employed as a **sophisticated tool** requiring highly skilled technical managers and knowledge workers, then the structure has to be flexible and decentralized with a decent level of empowerment to come up with solutions to technical challenges. Scientific research companies and medical diagnostic centers are examples.

Human Resource is another determinant. The more sophisticated a service, the higher are the qualities of intangibility and inseparability. It requires more knowledge workers who may like to work in well-coordinated teams free of any unnecessary monitoring and supervision. In such organizations, professionals are involved in developing services like medical systems, legal systems, consultancies, and scientific research for technical developments and innovations. Such professionals have internalized values of work and require autonomy. Hence, the implication is seen in having a flexible structure.

Summary

Purpose and structure are two important elements of the nature of organization. While purpose takes care of the need of customers, the structure brings that purpose to life. There are four determinants of structure. Environment defines whether a structure should be flexible or inflexible. Mostly, flexible structures are required to operate in an unstable and dynamic environment while inflexible structures are suitable to stable environment. The strategy, technology, and human resource play their respective roles in determining the structure of an organization. This can be seen the other way around also, meaning a structure should employ strategies, technologies, and human resource that are compatible with the purpose of the organization.

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SERVICES MARKETING**Introduction**

This lecture is a continuation of classification of services which we started discussing in the previous lecture. Nature of service, customer relationship, and demand pattern are discussed herein.

Classification of services

Nature of service: This refers basically to the point where a service sits on the tangibility spectrum. Whether it is a pure service, a dominant service with tangible product or a dominant product with support service is an important aspect of the nature of service. Another aspect of the nature of service is the level of involvement of the customer in production of the service.

A fast food home delivery service and courier delivery service have a lot of commonalities, but require two setups very different in terms of customer involvement. While a restaurant may listen to the customers for customized aspects of its products according to customers' taste (in-house serving or home delivery service), the courier organizations carry a level of customer involvement much lower than that of a restaurant. Restaurants direct their services toward individuals and families, whereas couriers are driven toward individuals and businesses.

In management consultancy services, involvement of customers is on a very high side for repetitive discussions regarding the design of assignment and the outcome in the form of a report. The area of travel related services can witness high to medium to low involvement of customers. Depending on the travel needs, the routes to be traveled /flown, the exposure of various customers to such services and the travel dynamics, various customers may feel various levels of involvement with the travel agency. A typical international business traveler may not have time to go to the travel agency and carve out his travel itinerary, while a first-time tourist may like to be present at the travel agency and involve himself vigorously in putting together his travel plans.

This classification therefore impacts a firm's operation, efficiency, and choice of human resource.

Customer relationship: The nature of service lays the ground for the kind of relationship the customer develops with the service and the service provider. The relationship can be formal or informal. Customers' relationships with banks are highly formalized, while relationship between a customer and a company offering cleaning services may be informal. The degree of involvement in case of a bank may or may not be high, while in cleaning service someone from the house (residential or corporate) may like to be present and fully involve himself in the service provided.

Health services cannot be performed without the customer being present. The customer must start the service and s(he) is the one to finish it. This holds true for routine medical check-ups as well as laboratory tests. In the hospitality industry, relationship is not limited to the environs of the hotel, but extends beyond that. Sales personnel have to visit corporate customers' offices to develop relationships for their retention and hence recurring business. This helps the hotel in managing demand between low and peak periods as well. The driving force behind this philosophy of relationship building is the recognition that it costs a lot more to attract new customers than it does to retain the existing ones.

This classification impacts customer participation and hence relationship marketing, which in turn raises issues of systems and procedures, hiring of personnel, employee training, and pricing etc¹. The cultivation of the relationship should start immediately upon the first encounter between the seller and the buyer as is clear from the accompanying figure 6.

Nature of demand: This classification is all about managing the fluctuations in demand and attempting to narrow the gap between supply and demand. Like explained earlier with the help of examples, it leads toward strategic pricing- and promotion-related decisions. Also, it deals with utilization of capacity in the most optimal way to manage fluctuations in supply/capacity and demand relationships. To further elucidate the point, bridal beauticians have a high level of demand in winter when most of the weddings take place, whereas demand falls in extreme hot months. How does the beautician manage demand fluctuations? It could be done by offering short courses on beauty to female audience during the lean months.

Demand patterns in services are mostly temporal, meaning relating a particular time and not consistent³. There are many considerable variations; a coffee shop doing peak business at lunch hour; transports doing peak business at weekends, hotels, golf courses and resorts doing peak business on holidays are a few examples of high demand pattern for services. The sagging demand is obviously signified during all those times other than the ones attracting high demand. Uneven demand patterns, therefore, are the greatest challenge for service sellers.

There could be different types of variations, but the most common are the following:

- Demand exceeding optimum capacity
- Demand below the optimum capacity

Demand exceeding optimum capacity apparently looks like a pleasant problem, but does offer marketing managers some selective concerns about meeting the excess demand. There could be two important consequences of this scenario:

- Disgruntled customers who cannot buy the service
- Danger of dilution of quality at the cost of service reputation and long term growth

Sellers have a few strategic options to come to terms with such challenges by

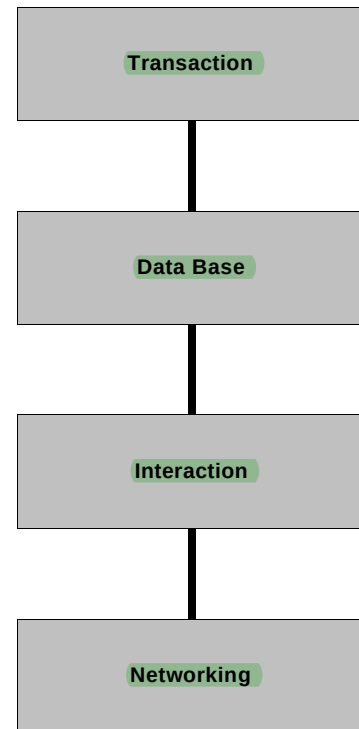
1. Shifting demand to lean period through offering incentives during non-peak hours and days.
2. Communicating busy days and timings to offer a choice of convenience to customers.
3. Identifying regular customers and serving them first.

The above can be exemplified by an act of an airline that may try to induce passengers into flying during lean period at promotional pricing. Another example could be that of a cinema house that may offer morning shows to add to its capacity and increase revenues.

Demand below the optimum capacity is marked by a situation in which you have excess capacity. The problem of unutilized human resources and equipment present some thorny challenges of selling. They add to costs and at times outright losses. Customers may enjoy the situation for getting attention more than is warranted, but

Marketing Relationship Build-up

Figure 6



this may also be temporary. They get more confidence by seeing more customers. Therefore, despite undue attention they start losing confidence. The main strategic options available to sellers are to get into

1. Aggressive promotions through effective communication strategy: advertising and promotions of different kinds.
2. Entry into new segments and new products.
3. Offering price incentives (not at the cost of quality and reputation; sellers should prefer quantity discounts than straight price cuts).
4. Change in service timings to the convenience of customers.
5. Providing service convenience (access convenience like home delivery and transaction convenience like installments, internet shopping, internet banking etc. Internet banking has just been announced by MCB in our market. You can enrich yourselves while going through strategies of distribution later in the course).

The promotions can be exemplified by an act of a hotel offering promotional pricing during lean period and thereby increasing its revenues.

Entry into new segments could be exemplified by a beautician offering courses on personal upkeep and care in lean months, when there are few weddings and hence low bridal business. Another example could be that of a small business of electricians offering maintenance service to households on monthly basis. Their peak could be seasonal (fixing of A/Cs and UPSs) or even accidental immediately upon a rain storm. These examples take us into the area of rationalizing the product line.

Summary

Three classifications of nature of service, customer relationship, and nature of demand carry equal significance toward providers' ability to make the service compatible with the goals of the organization.

Nature of service pinpoints the kind of human resource providers need in order to come up with the right systems, procedures, and delivery mechanism for the service. It has its bearings on operational efficiency and profitability.

Nature of service also draws sellers' attention toward the kind of relationship that they should be cultivating with customers with the objective of serving customers well and then retaining them for saving costs and improving margins.

Nature of demand lets sellers get into the exercise of balancing supply and demand if possible with special emphasis on retaining existing customers when demand is optimal and stimulating demand when supply is greater than demand.

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SERVICES MARKETING**Introduction**

In this lecture we learn the remaining two classifications of service package and the delivery method. Our learning lets us put into a proper perspective the benefits of classification of services. Based on those we shall see what additions do we need in order to define the variables of marketing mix for services?

Service package: This is the number of goods and services or a combination of both that is offered to customers. It can be one service and one good, more than one service or good, multiple services and one good, multiple services and multiple goods, or a combination of all those. The important dimension is what is delivered as standard individual products and what is it that is lumped together as more than the standard!

A service package has a bearing on the kind of equipment needed to support the service, equipment's strength, its quality and maintenance. Equipment offers advantages in terms of reducing the variability of service offerings¹.

In a fast food restaurant, equipment is of high significance. Its quality has a direct bearing on the quality of food and accompanying services. The existence of equipment takes on importance also from the standpoint of customization. A cola drink fountain has provision for a diet drink and different dispensers have provisions for sauces of different tastes and profiles.

A car manufacturer's offer of free service on a certain model without having the right equipment to effectively service the model will be at an extreme disadvantage. This highlights the relationship between equipment and the effectiveness of service delivery.

In a health club, same holds true. If the club cannot support the package with the requisite equipment of quality, the package is not going to have any meanings. Service package, as a matter of fact, lets the differentiated feature come to the limelight. The club cannot offer such features unless it is properly equipped.

This classification takes business managers into the realm of product development that can be stand-alone products or extensions of the existing ones with the objective of creating a sustainable competitive advantage.

Delivery method: This is all about distribution and customer outreach. Just like in case of goods, services also have to be distributed through different sites. The decision on sites may result, after taking into consideration different variables, in a single site or multiple sites. The variables could be the type of consumption and the level of need to be close to customer.

A banking network may like to be close to as many neighborhoods and business centers as the bank's resources allow and business potential warrants. A fine dining restaurant may not have the same distribution strategy for the reason of keeping itself very exclusive.

A hotel may also have just one site and deal with the distribution or delivery of service by way of reservations. Reservations, in turn, are made keeping in view the rate of occupancy and the available capacity at a given point in time.

From the examples we can determine that this classification relates issues concerning location, facility design, and operations.

Benefits of classification

Classification lets us look into many strategic aspects of management and marketing. While classifying the nature of organization, it lets us have a clear vision (given the purpose) which can be translated into mission

and then further down to goals and objectives. It also lets us determine the strengths and weaknesses of the organization and then see our resource capabilities. It brings to the surface the limitations for us to decide which service products or features cannot be introduced with success. It gives us the confidence of having the right people who have the right training and the passion to deliver.

Nature of service lets us define the product, its reason for being and the differentiated features. It shows us the opportunities to introduce new features and hence lets us decide on the points of difference with a conviction and the right position that our service must have given the target audience and the segment.

It dictates the kind of training programs that we must follow for different levels of the organization. It makes it mandatory where we need to have high efficiency, productivity and operational excellence to provide our service with distinctive skills. It also lets us price the service product.

Customer relationship lets us have the right human resource and accentuates the training programs.

Nature of demand lets us go into pricing and promotions and actuates communication campaigns. It lets us rationalize the product line by way of introducing new products for new segments and hence expand our market.

It lets us optimize our resources through the balancing between supply and demand.

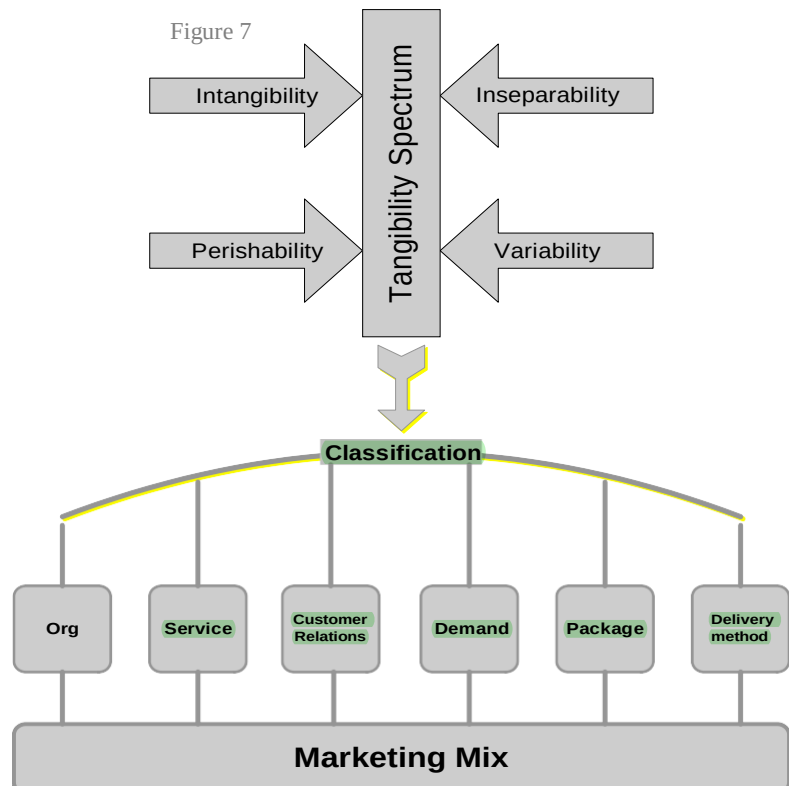
Service package lets us get into the area of promotions of specific products that are sold as packages along with the core product. It also lets us look into the need for certain equipment to maintain competitiveness and hence into the area of capital investments.

Delivery Method lets us get into the area of business development and hence deals with the strategies of growth. Investment decisions are taken as a direct result of such strategies.

Overall, it lets you develop the right products, position them correctly, price them smartly, distribute them effectively with operational excellence at optimal costs and decent profitability.

It is now clear that services should be classified in light of their basic characteristics to developing the right strategic framework for their marketing. And, it is obvious that classification can facilitate managers in matters of:

- Differentiation and positioning of a service
- Pricing, communication and promotion of a service
- Productivity, efficiency, and human resource solutions
- Revenue optimization through supply and demand adjustments
- Developing service packages, distribution, and operations



The above strategic considerations boil down to one fact that marketing of services is not radically different in fundamentals of marketing concepts. There are many commonalities. “In fact the fundamentals of marketing are the same to both the sectors. What is required is to develop an adaptable mechanism to a different environment, keeping in view the services characteristics. Thus, services marketing is nothing but application of traditional marketing philosophies to the service sector with changes required wherever².” In other words, all that is required is approaching the area in light of characteristics so that relevant additions and adaptations can be brought about.

Marketing mix of services

Traditional marketing being the base of overall marketing has to itself certain adaptations in the case of services marketing. These adaptations are essentially additions to the traditional marketing mix of goods marketing. That is, services marketing has a few more variables that add to the traditional mix of four Ps of product, price, promotion, and place. These four Ps of the marketing mix have been found to be too limited in their application to services³. The limiting factors are highlighted by the basic characteristics when analyzed in light of the classification scheme. Experts therefore have added variables that complete the mix of services as follows:

- People
- Physical evidence
- Processes

The fundamental elements of marketing mix of services therefore have seven Ps. Careful management of product, place, promotion, and price will clearly also be essential to the success of marketing services ⁴. 

People: All human actors who play a part in service delivery and thus influence the buyer's perceptions: namely, the firm's personnel, the customer, and other customers in the service environment⁵.

Because of the intangibility, especially in case of pure services, people delivering those services take on an added significance. Their presence makes the intangible tangible. And, therefore, they are an important element of the marketing mix. The encounter of those people with customers leaves an impression on customers and provides them with signals about the nature and quality of the service. The overall behavior of people along with their appearance affects (positively or negatively) customers seeking their services.

This may not be the case for goods. Customers are interested in goods to the point of their having good quality. It does not matter to them who prepared them and how they behave while at work as long as they produce products according to the quality customers want. Also, they are not concerned with the change of so many hands between the point goods leave their production areas and the market where they go and buy goods as long as those goods fulfill their needs. Conversely, for services everything revolves around people who are the service providers and hence the requisite behavior and appearance!

Whether it is a food outlet, a bank, a health care unit, or a consultancy setup, the importance of good behavior and appearance takes hold according to the perceived standards of the respective setup.

Since people are supposed to offer solutions to customers by selling services, they have to be carefully selected and then trained by their organizations. Such an approach ensures that the service providers or contact personnel deliver services in line with values and objectives of the organizations. Such organizations invest a lot into minimizing the factor of variability by introducing systems and procedures that ensure standardization to the required extent and also maintains a balance between such standardization and empowerment.

Motivated employees who want to make decisions for the good of customers for serving them better look forward to being empowered by their companies. It is here that companies have to decide where to strike the balance between standardization and empowerment. A motivated employee may like to serve a customer by going out of the way but feel restricted due to the established procedural limits.

People as an element of services marketing mix are important not only from the standpoint of delivering services, they are important also as customers affecting delivery of services. Intelligent and well-exposed customers can get a better service out of a firm of architects and a consortium of management consultants than if the service providers were left to their own delivery style and mechanism. Such customers affect the quality of services that eventually become standards and benchmarks for the providers.

By the same token disgruntled customers in a bank or a public utility office like power, water, or telephones are bound to affect the perceptions of those customers around them waiting to be served by the providers.

Summary

Under the benefits of classification of services, we have seen the strategic role played by different classifications. We also have seen how the classification navigates our understanding into the variables of marketing mix.

Services must be classified and in light of their basic characteristics to develop appropriate strategies of differentiation and positioning, communication and promotions, productivity, efficiency, and human resource solutions, supply and demand adjustment, distribution and pricing. With the extended mix of variables, sellers should be comfortably able to identify the right mix to develop such strategies. We shall learn more on this in the ensuing lectures.

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SERVICES MARKETING**Introduction**

After having learnt the concept of people as a variable of marketing mix we now concentrate in this lecture on the remaining two variables of the marketing mix for services, that is, physical evidence and processes.

Physical evidence: *The environment in which the service is delivered and where the firm and the customers interact, and any tangible components that facilitate performance or communication of the service¹.*

Again, for the factor of intangibility of services, customers are not able to judge services until they buy them. The level of risk involved in buying a service is a prime concern of potential buyers. To put to rest those risks, companies attempt to create tangible evidence to convincingly sell intangible products. Physical evidence therefore forms an important strategy of marketing mix for services.

The physical evidence takes two shapes. First, it appears in the form of brochures and signage. Business cards and letterheads also contribute toward such evidence. The design and colors of invoices and bills also lead customers to form their perceptions of the service and hence serve as physical evidence.

Second, it is reflected by the physical facility where transactions take place – “servicescape”. Companies nowadays work hard on creating a servicescape that attracts potential customers’ attention. The evidence when put together goes a long way in communicating company’s values and hence the right image. In Pakistan, servicescape has played a positive role in case of banks, courier services, cell phone companies, fast food restaurants, and retail stores to mention a few.

All of the abovementioned service sellers are using various creative techniques ranging from the architectural designs to colors and well trained people as a well-established strategy to create an environment in line with their positioning. This convinces people of the professionalism on part of the service sellers. Just as the packaging may signal the quality of a tangible good the tangible evidence associated with a service provides service quality cues.²

Processes: *The actual procedures, mechanisms, and flow of activities by which the service is delivered – the service delivery and the operating systems³.*

Good processes to serve the customers with the goal of satisfying their needs are added evidence by which customers judge a particular service. The level of complexity or simplicity of a process is a function of the service and organization’s outlook. Processes basically should reflect the business positioning. If done systematically, then the chances of a customer-focused process coming up are bright.

A customer-focused process should be simple and efficient that on the one hand facilitates employees to deliver efficiently and on the other enables customers to feel that their decision of buying the service has been correct. That enables customers to simplify their purchase process for the future and helps business retain their customers.

Pakistan International Airlines (PIA) with the introduction of on-line facility for reservations and seat selection definitely gives the impression of simplifying a process, modernizing it, and creating further franchise for their brand – PIA.

A tedious process for visa application of a country definitely gives the impression of the country being difficult and unfriendly; a simple one creates an impression otherwise – a friendly country.

A cell phone company with fulfillment of lengthy requirements before allotting a subscriber his number is perceived complicated and less customer-driven than the one not going into unnecessary complications. The example of Bank Alfalah’s VISA credit card’s tremendous success owes to its simple requirements and customer-friendly online technology support to customers.

The basic objective of a process remains provision of a service without unnecessary bottlenecks. Streamlining the delivery of a service should take precedence over other considerations.

Importance of 7 Ps

It is clear that services make use of seven and not four Ps, with People, physical evidence, and processes being the additions. The concept gets clarity from the learning of characteristics and the classification scheme. The wide availability of variables provides us with the right ingredients to develop, support, and sustain good products toward having a healthy enterprise.

The mix is a bag of tools that marketing people use to shape their services through development, positioning, pricing, distributing, and promoting. Such activities call for developing strategies and formulating tactical moves toward making the service a profitable proposition and the enterprise a healthy entity. Not all variables are used in an arithmetic form by way of using certain formulas.

The classification scheme serves as the guide for identifying the variables and their intensity toward executing a strategy. Variables are further divided into a host of ingredients. For example, promotion in itself carries a bag of tools like advertising of different kinds, promotions of various natures, PR, event management, and the like. These are known as promotion mix.

The experts concluded that any number and mixes of ingredients within the traditional four Ps were not enough and hence the seven Ps.

The reasons concluded for extended mix become straight forward based on the understanding that

- Existence of services is intangible
- Defining quality in services and creating and maintaining benchmarks is different.
- The concept of physical distribution is an exchange function, whereas in services distribution despite multiple locations offers itself as a facilitating function. Marketing and operations take place at the same time and location.
- The promotional difference is evident from the factor of inseparability where sellers are promoters at the place of production.

Implication for marketing

All the variables, especially the additional ones have an important implication for marketing and that is marketing's integration with operations and HR. In other words, the variables (people and processes from different departments to mention two important ones broken into ingredients) that we use for and during the process get integrated into each other. This owes to the production and marketing of service taking place at the same place. It is, therefore, obvious that this can be done only with the help of the additional three Ps to have the desired focus on customer.

As an example, you may envision yourself as a hotel or a bank manager. Your concern on daily basis is to ensure that you maintain your sales, satisfy customers, achieve smooth running of operations, and keep your employees productive and motivated to deliver the service. The objective spans activities from marketing and sales, operations, and the HR departments that must act in an integrated way throughout the day during service deliveries. This highlights the characteristic of inseparability and marketing being a facilitating function.

Failure of any of the functions will immediately affect other functions and create dissatisfied customers. Disgruntled customers create scenes and affect others who are present at the servicescape.

Well-synchronized functioning will lead to creating value – a two-way street, in which customer also offers you value if you can retain him.

The above may not be the case with a tangible good. Despite focus on the customer, the working of different departments may not necessitate integration of the functions at the same time and place. A tangible good can be replaced at any point of the exchange medium that signifies in that case the separation of functions. The concept can be described with the help of two figures 8 and 9.

Retaining customers is the need of the time. Gone are the days when services were transaction-oriented.

Integration of Marketing, Operations, and Human Resource

Figure 8

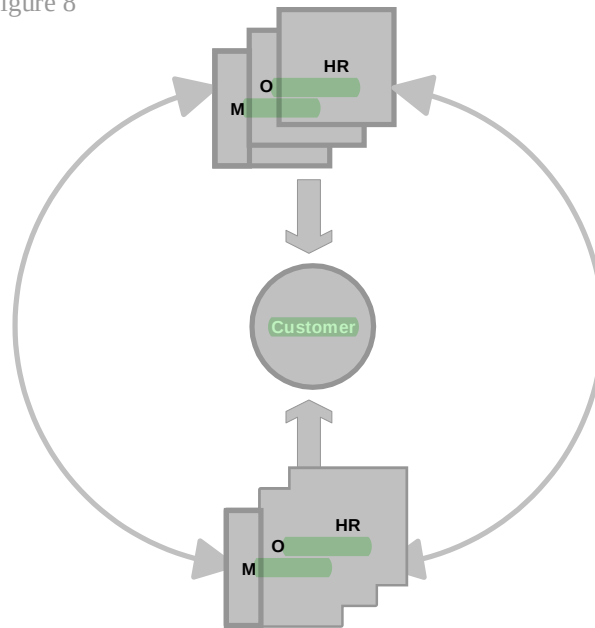
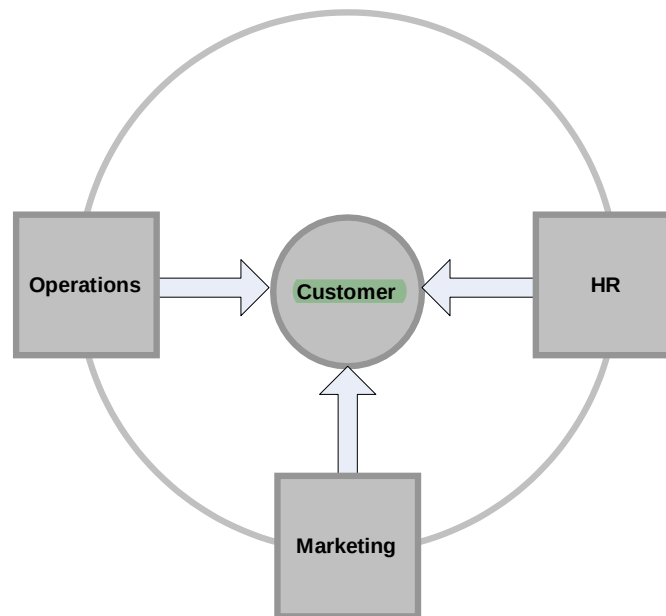


Figure 9

Manufactured Goods



We are living in an age of relationships whereby customers can be retained so they can add to company's revenues. Keeping them satisfied and their expectations met are the job of the marketing managers who need the right **people, physical evidence**, and the right **processes** to achieve their objectives of services marketing management.

Summary

The lecture concludes three additional Ps of the marketing mix for services and highlights their importance as strategic variables. The mix of variables should be drawn as tools most appropriate for service development and delivery in light of characteristics and classification scheme.

Another important lesson is the need for marketing to integrate itself into the areas of operations and HR to effectively deal with the challenge of inseparability. Actually, the need for integration should be equally acknowledged by all the departments toward delivery of a service that comes up to customers' expectations and satisfies them. The eventual goal is to retain customers and have them spend more in a repeat fashion of purchasing.

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Valarie A. Zeithaml and Mary Jo Bitner, "Services Marketing – Integrating Customer Focus Across The Firm, 3rd edition; McGraw Hill (25)

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SERVICES MARKETING**Introduction**

The main objective of this lecture is to develop an understanding of the gap that exists between customer expectations and customer perceptions (experiences). Customers develop certain expectations from a service and then evaluate that service in light of the experience they have had of the service. Following the comparison, customers mostly seem to experience a gap between the two.

There are four levels of the gap. All tend to explain why service firms are not in a position to impart service of the quality as expected by customers. There always seems to be a gap between what is expected and what is delivered. This lecture is the beginning of the understanding of the “why” part of the gap. Zeithaml and Bitner call this gap as the “provider gap”¹. These levels are also explained graphically with the help of the following figure 10.

The provider gap and its levels

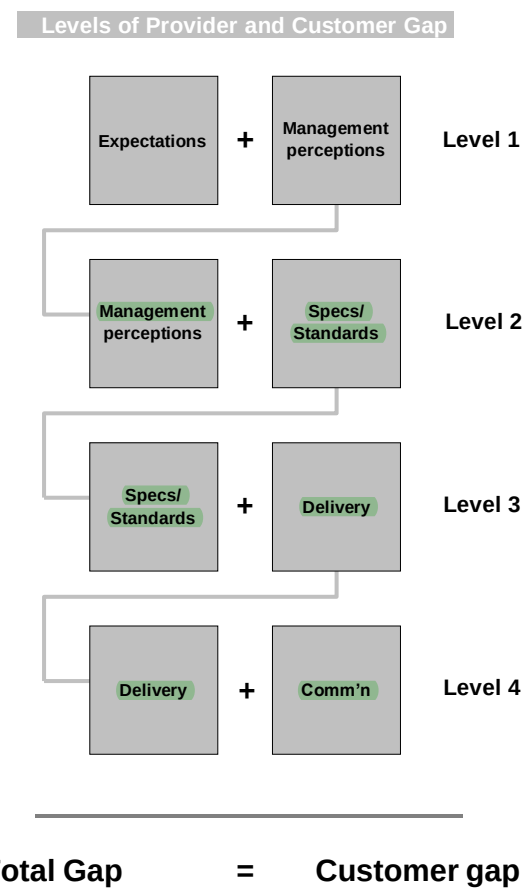
Level 1 - gap between consumer expectation and management perception: Management does not always perceive what customers expect. An insurance company may perceive that customers want *lower premiums*, whereas customers’ expectation may be *quick settlement of claims* in case of car accident and theft insurance. This is a clear example of company’s inability to position its service product in the minds of the customers the way they want. A gap between the two dimensions leaves much to be desired in delivering the service.

Level 2 – gap between management perception and service quality standards: Management may correctly perceive customers wants, but may fail in specifying the standards required to offer the service according to customers’ expectations. A fast food restaurant may not be able to standardize the procedures and train its employees to deliver a uniformed product anywhere and at any time. Variability in delivering the right, standardized product causes this gap.

Level 3 – gap between service quality standards and delivery: Even if the management develops the right standards to serve customers according to their expectations, employees may not translate those standards into desired actions. This may happen either for not hiring the right personnel or not training them appropriately. This also could occur even in the presence of competent and well trained employees due to the fact that employees do not feel motivated to deliver the service according to the laid-down standards.

Level 4 – Gap between service delivery and communicated promises: This develops when everything seems in place in terms of understanding of consumer expectations and standard operating procedures and yet there remains something short of what was promised. The implication here is that even if the delivery is according to the laid-down standards, companies should under no circumstances get into communications that promises more than what they can deliver. An insurance company claiming to settle claims within 24 hours of filing a claim may create a gap if it actually settles the claim in 48 hours. It may still be far ahead of its competitors in customer care and handling, but certainly falls short on the promise it makes.

Figure 10



The customer gap

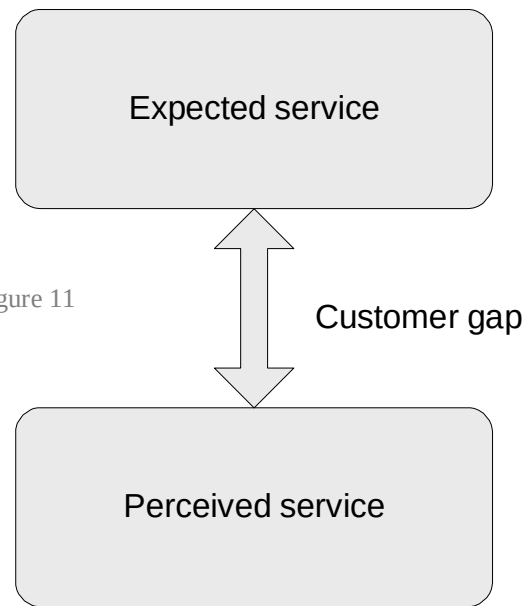
The provider gap automatically leads to what the authors call the “customer gap”. The development and execution of services center on closing the gap. How to fulfill and exceed customer expectations, so that there is no gap, remains the challenge for marketing and business managers. The whole concept of services marketing is developed on the stated challenge. Our step-by-step learning of the concepts all along the course is going to be in direct correlation with the gaps that occur as mentioned above.

We have seen that the foundations of the gap are customer expectations and perceptions. The former relate to certain references customers have in their mind before buying a service. The latter is about evaluating the service once it is bought and consumed.

The closer customer evaluation is to the expectation, the narrower the gap. It happens seldom that the evaluation is identical with the expectation. If it is, then there is no gap at all. However, that amounts to being 100% perfect in delivering a service, which generally is not the case. The gap model of customer expectations and perceptions is graphically explained in the accompanying figure 11.

Services Marketing – Integrating Customer Focus Across The Firm by
Varalje A. Zeithaml and Mary Jo Bitner: McGraw Hill (33)

Figure 11



Services, as it is apparent from the discussion so far, must be designed keeping in view their characteristics. Special emphasis in that direction enables providers to more objectively understand the customer evaluation process. A better understanding of that process leads providers to minimizing, if not completely eliminating, the customer gap.

In order to better understand why the customer gap exists, we need to understand differences that exist in evaluation processes of purchasing goods and services. The evaluation of the purchase processes becomes important from the standpoint of different properties that the two classifications of consumer products (goods and services) have. This simply means that goods for being tangible and services intangible have different properties. Economists have drawn distinction among them by way of defining those properties, mentioned hereunder, for a better understanding of the processes of evaluation².

- Search qualities
- Experience qualities
- Credence qualities

Search qualities: Relating tangible goods, these qualities enable us to easily search the differences among different products and determining their attributes. The cues that lead us to determine the attributes are looks, colors, feel, smell, size, and a host of variations of these attributes. Therefore, it can be said that tangible goods are high on search qualities. Having said that, it is not difficult to search the attributes of a bottle of juice, a television set, or a car as examples. The crux of such properties/qualities is that consumers can evaluate attributes before a purchase is made. That simplifies the purchase process and takes the element of risk of not knowing what one is buying out to a great extent.

Experience qualities: As the term suggests, these qualities cannot be determined unless one really experiences them. You cannot determine the attributes of a service at a restaurant or a hotel until the time you really experience their services and evaluate them. Services, therefore, are high on experience qualities.

Credence qualities: There are attributes of service products that cannot be easily evaluated by consumers even after they have bought a service product. Repair and maintenance of industrial equipment and certain household goods are services that cannot be technically assessed by consumers long after the services were rendered.

It is clear that more a product is tangible, the more it is dominated by search qualities; the higher the level of intangibility, the higher is the domination of experience and credence qualities. Zeithaml and Bitner have graphically shown qualities/properties of different products on a continuum of evaluation of different processes as figure 11. It is reproduced on the next page for your ready reference and study.

It is clear from the above that consumers employ different process of evaluation for services than they do for goods. As they move along the continuum from left to right, they need to experience the products to assess those. As they deal with products on the far right of the continuum, they need to wait even after they have experienced those goods to arrive at an evaluation. Therefore, there is a dire need to understand how the purchase process for services works.

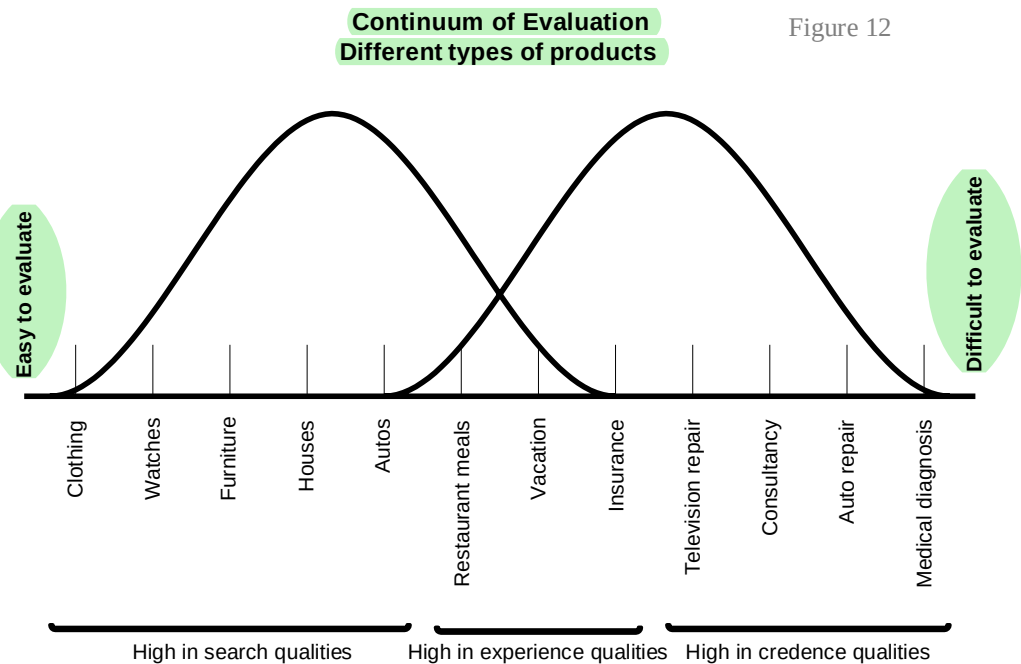


Figure 12

Services Marketing – Integrating Customer Focus Across The Firm by Valarie A. Zeithaml and Mary Jo Bitner (37)

Summary

The gap model explains why there exists four different levels of gap between management view of customer behavior and what customers actually think of the service and its delivery qualities. For understanding the model a little more analytically, we have to visit the continuum of evaluation to see how customers evaluate services before they buy the same. There is a unique purchase process of evaluation undertaken by them and it lays the foundation for the evaluation of services. Our understanding of that process enables us to deal with the gaps more effectively.

Bibliography:

1. Valarie A. Zeithaml and Mary Jo Bitner, "Services Marketing – Integrating Customer Focus Across The Firm, 3rd edition; McGraw Hill (32-33)
2. Ibid (36-37)

SERVICES MARKETING

Introduction - The purchase process of services

In order to understand the customer gap and the related process of evaluation (the assessment of the service and customer's experience), we first must understand the phases of the purchase process customers go through in case of services. This process is more complex than the one customers go through for goods. The following phases comprise the process:

Pre-purchase phase

This phase lays the foundation for the primary decision about purchasing a service. Such a decision is influenced by a host of factors like internal factors, external factors, firm-produced factors, and perceived risks¹.

Internal factors relate customers' past experience with a particular service, references from others and exposure to promotional materials etc. All of these facilitate a customer to make or not to make a decision for purchasing a service.

Good experience with a service in the past automatically lays a positive ground for re-purchasing a service. A negative experience does the otherwise, for obvious reasons. This holds true for any service - a travel service, a medical service, banking or insurance transaction, or a consultancy service to name a few. Word of mouth or references from others also serve as good and effective guides for buying or not buying a service.

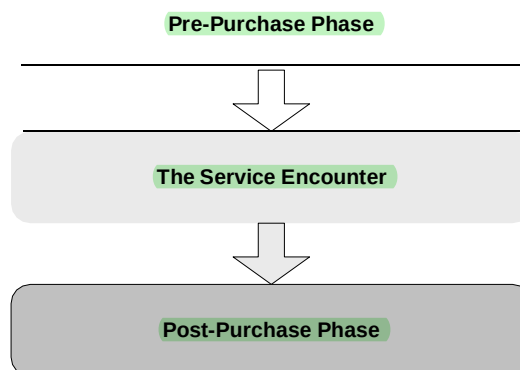
External factors considered during the pre-purchase phase relate competitive offerings available to a potential customer. A customer has a choice of opening an account with one particular bank. Likewise, s(he) has the option to fly a particular route operated by more than one airline. Word-of-mouth communications and social context also play a role in making a pre-purchase decision. Good reputation of a service attracts customers, which is a reflection of positive word-of-mouth. Social context comes into play when customers make a decision keeping societal influences and pressures in view. The decisions between choosing a fast food restaurant for a quick lunch versus one that is chosen to entertain someone in style have two different social contexts. The former is about fulfilling a basic need whereas the latter carries an intention to create an impression and oblige the guest(s).

Firm-produced factors are pricing, promotions, and distribution. These factors play a role in motivating customers to make a favorable decision for a service. Pricing and promotions become dominating factors if service meets customers' expectations. Distribution basically refers to availability of service. Close proximity of the point of sale adds to the impact of good pricing and promotions. Apart from physical location, hours of operation further add to the overall impact. Automatic teller machines (ATMs) by banks at various locations offer the benefits of multiple locations and liberty of hours when it comes to withdrawing cash.

Perceived risk is the exposure of the consumer to some kind of loss, damage, or injury. When evaluating a service during pre-purchase, consumers like to make sure that they do not get inflicted by risk of any kind. The types of risks that affect a consumer's decision making process are the following:

1. **Performance risk:** This is the risk that the service may not perform and offer the benefit for which it is purchased. A catering service claiming to sell high quality Chinese food may offer food not really having the typical Chinese profile – both taste and looks. An eager contractor pursuing to get your construction project may not perform according to the promised schedule and get you in trouble.

Figure 13

The Purchase Process

2. **Financial risk:** Monetary loss incurred by the purchaser of a service forms financial risk. A consultancy company may conduct a study of strategic importance not yielding the desired results leading to losses incurred by the client. Financial risk takes on added proportions in today's supply chain management that brings international buyers of famous brands in developed countries and contractual suppliers from developing countries together. In such a chain, logistics companies form a vital link. Such a company may fail to arrange land and sea transportation for timely delivery at the port of destination causing the buyer huge losses for not being able to distribute the merchandize to its customers (retail stores) on time. To preempt such a happening, buyers generally take into their hands the authorization of appointing logistics companies.
3. **Time loss risk:** The above example of logistics company failure can be applied here as well. Basically, it is the risk associated with inactivity or belated activities on the buyer's side as a consequence of seller's inefficiency. In other words, it is the time lost by the buyer because of the failure of the service.
4. **Opportunity risk:** This risk presents itself when a customer chooses one opportunity over another and the one chosen turn out to be a failure. A traveler opting out of the air travel for a well publicized train service may feel not well served and regretting the loss of opportunity for traveling by air. The risk stems from opting one service and eliminating the other.
5. **Psychological risk:** This refers to the chance that the service bought does not fit into the self-concept of an individual. A bride may feel frustrated at not getting beauty enhancement from a beautician who she thought would do wonders on her. Such a risk is high on emotional value and as such presents itself in areas like education, fitness facilities, and designer consultancy in terms of dresses and make-up.
6. **Social risk:** This kind of risk is involved in getting a service that may not get the approval of others with whom one socializes. Take the example of a catering company that does not come up to the mark in managing a wedding event. Friends and relatives of the customer may not approve the service rendered by the seller.
7. **Physical risk:** This occurs when one is buying a service that may be prone to offering physical danger to one's life. Getting a major operation puts one under stressful considerations of such a risk.

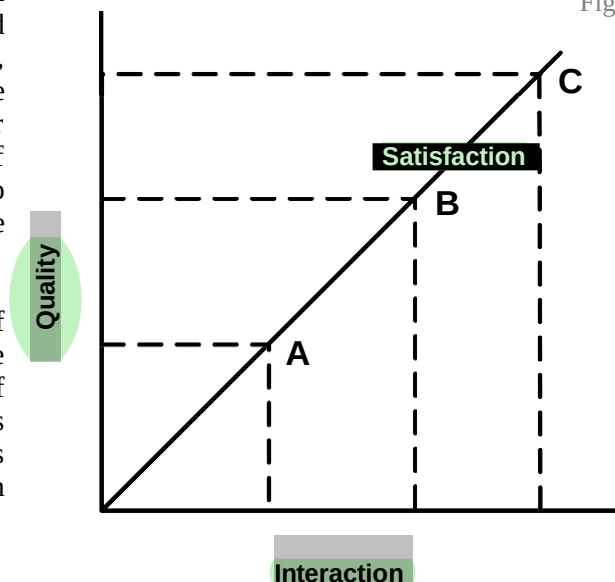
The service encounter

The sequel to the pre-purchase information gathering and weighing of risks is the second phase of the service encounter. In this phase, actual encounter takes place between the buyer and the service provider. The buyer gets to the point of sale (physical evidence) of the service desired where s(he) gets into interaction with the provider to have the service completed.

During the encounter, the processes of production and marketing take place at the same time and the characteristic of inseparability comes into play. Interaction lays the foundation for encounter and it is obvious that the quality of interaction between the customer and the provider defines the quality of service rendered.

Interaction, Quality, and Satisfaction relationship

Figure 14



The above implies that sellers have an opportunity to satisfy the customer; the relationship, therefore, has to be understood to determine the level of interaction that will satisfy the customer. This is a sliding scale and the higher the quality of interaction, the higher the satisfaction and vice versa. The accompanying figure 14 makes it clear that the higher the level of interaction quality, the higher is the customer satisfaction.

However, it is a different issue as to what extent the customer is satisfied with the service in terms of his/her expectations and the delivery of service that is the extent of the customer gap.

The above implies that encounters can be full of variability. To diminish the chances of variability, service providers seek support of technology and that is why you see supports like ATMs and automated voice-assisted telephone systems that come into interaction with customers to complete the service customers want to buy. The idea is to handle high volumes of business, and maintain consistency with the help of machines. In other words, machines fulfill the process of interaction between customers and providers.

Since quality of service encounter is of high significance, we must learn the factors that underlie encounter's quality aspect.

1. **The role theory:** Given the importance of interaction, this factor necessitates that both the buyer and the seller must understand their roles. Not only the seller or the provider must be fully competent at her/his job, the buyer should also be intelligently aware of the solution s(he) is looking for through the provider.

A client should be able to explain to the market research company why s(he) wants a particular research design formulated. Having had clear understanding of her/his problems and defined the hypothesis, the client can be effective in getting the best out of the serving research company. The client, in other words, must be able to diagnose her/his problem and enable the interaction take quality dimensions. Similarly, the seller of research must be professional enough to present a study worthy of the client's expectations.

The quality of service and the ensuing evaluation of satisfaction by the buyer determine the quality of service².

2. **Script theory:** Script theory is an extension of the role theory. With the understanding of roles, the concept accentuates the best way roles should be played both by the service provider and the customer. The clarity about role playing comes through a series of behavioral experience and communication with others. It is the detailed actions played by both of them.

In the first place, the scripts should be so clear that both the parties understand the role they are to play. However, it is the responsibility of the service seller to script the roles *both for the provider of the service and the customer as well*. In a fast food restaurant, it is the job of the providers to make their first time customers comfortable without customers asking for what to do to place the order. The same should be the case at a bowling alley to entertain facility's first-time guests as well as frequent comers.

The script of the provider is the result of standardized procedures that should be followed day in and day out in such a manner that they become routine activities executed automatically and **instinctively**. This means that standard procedures should be developed so comprehensively that scripts of both the provider and the buyer become very clear to providers. The script should be a routinized behavior that sets the stage for a good script playing by the customer also.

Any change in the script of the provider must be done with a view to a subsequent change in the customer's. The required number of new personnel must be placed at the facility to guide customers without causing any undue embarrassment.

Summary

It is incumbent on sellers to be good at understanding how the purchase process unfolds. If they understand how customers evaluate the pre-purchase process, they will have strategies to minimize customers' apprehensions that dominate the pre-purchase phase with different kinds of risks.

Similarly, the encounter phase should be dealt with utmost sensitivity to come up to the expectations of customers. In doing so, providers must understand the scripts that cover the roles played both by themselves as well as customers. The beauty of this understanding lies in not only providers playing their roles effectively, but also in their astuteness in having their customers play theirs comfortably.

Bibliography:

1. Kenneth E. Clow and David L. Kurtz, *"Services Marketing, 2e – Operation, Management, and Strategy"*, Biztantra (30)
2. *Ibid* (40-43)

SERVICES MARKETING**Introduction**

We continue with the encounter phase of the customer's process of evaluation and then get into the third, final phase of post-purchase. This will complete our understanding of the fundamentals of the behavioral model of evaluation. We then will take up the next important model of consumer behavior that relates customer expectations.

Encounter

A few factors customers consider seriously to assess the quality of their interaction with the company are as follows.

3. *The service environment:* This deals with the tangible side of the service, meaning the evidence in the form of the facility, its atmosphere, presence of other customers, their behaviors, equipment, and office decor etc. All the elements of the environment have an impact on the customer's way of evaluating the service during the purchase and after the purchase.
4. *Service personnel:* Businesses should hire the right personnel, train them well according to standardized scripts for them to interact with customers qualitatively. Incentives and compensation systems should be introduced to achieve this goal.
5. *Support services:* Support services basically are the ones required to make the final service to customers a quality product. Support comes not only through procedures, but also equipment. The personnel handling equipment (restaurant equipment, information technology equipment, janitorial or electrical) must be fully trained to keep their equipment in the highest order of quality. Also, it is the responsibility of the service seller to provide their support staff with all the necessary tools and equipment. This holds true for a restaurant's kitchen as much as it does for the maintenance department of an airline service.

Post-purchase phase

During the post-purchase phase customers evaluate their experiences after receiving the service. If their expectations were met, they would rate the service as quality service; if the expectations were not met leaving a customer gap, then they would rate the service as the one having poor quality. Good quality service brings satisfaction, strengthens loyalty to the firm offering the service, elicits positive word-of-mouth and referrals; poor quality service draws negative word-of-mouth, switching of seller in future, and dissatisfaction.

There are a few factors mentioned below that come into play while customers evaluate post-purchase phase¹.

1. *Evaluation of service quality:* Customers evaluate a service from two different angles. They look at it from the result point of view, which is the technical evaluation. If the result is what the customer wanted, then technically the service is sound. They also evaluate a service from the standpoint of how well they were treated during the delivery of service. A restaurant offering high quality food with unfriendly service is high on technical score, but low on the functional side for not treating its customers like valuable guests. According to Clow and Kurtz, a deficiency on either of the two components of technicality and functionality results in poor evaluation of the service received.
2. *Customer satisfaction:* According to Clow and Kurtz, satisfaction or dissatisfaction is an episodic measure, for it relates the last experience with the service. They go on to say that service quality is a global evaluation of all the past experiences. That is, the cumulative effect of them all. Episodic experience carries importance in that it has the potential to alter the global evaluation. As an

example, you may or may not like to give one more chance to a poor service that in the past has been good (episodic). Generally, you would ignore one time, but the next time is crucial. It must be positive to save any switching of seller on part of the customer.

In case of a negative experience by a customer, the company must try to compensate that negativity in some form – a discount, free offer, or some inducement for future to improve the episodic measure.

3. *Attribution theory*: The process of deciding the cause of a service failure is called “attribution theory”. Customers evaluate the reasons for failure and then attribute those to the failure. If they think that the failure was beyond the control of the seller like bad weather disturbing flight schedule, then they attribute the failure to uncontrollable circumstances. However, if they think that the cause was well within controllable limits and could have been averted, then they attribute the failure to the seller.
4. *Future behavior*: Future behavior is a function of satisfaction or dissatisfaction. Of high significance here is empirical evidence that dissatisfied customers are more prone to talk about the poor quality of service to many more people than satisfied ones who refer a good quality service only to a few people. The lesson for service sellers is to make sure that nothing should go wrong in delivering the service.

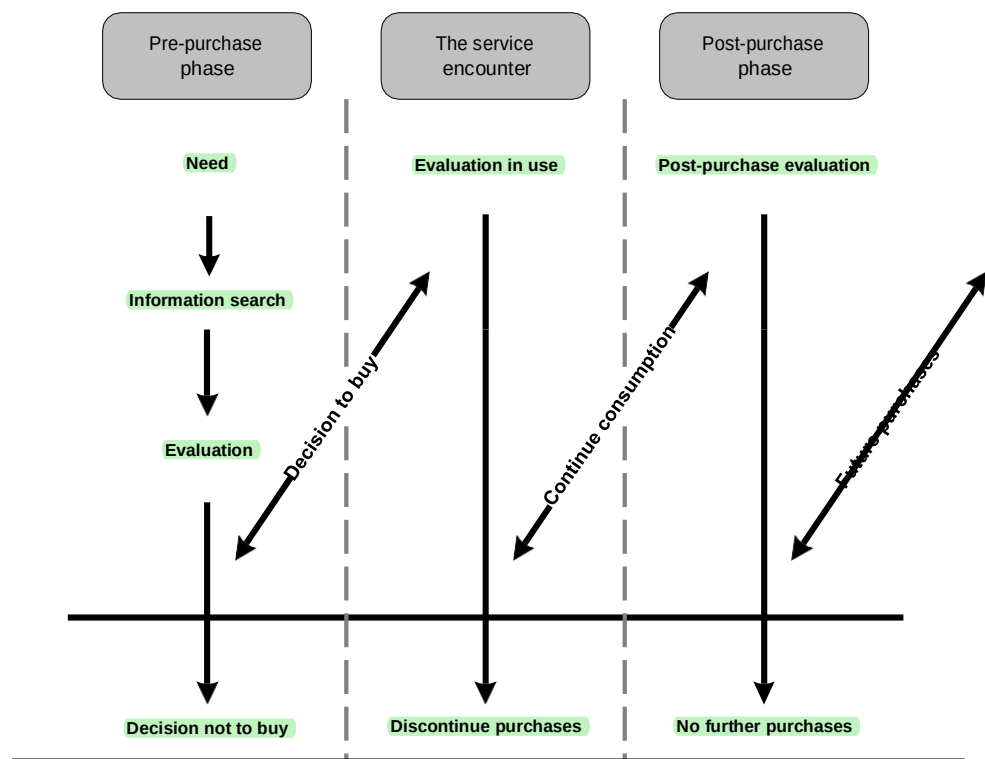
The compound effect of the negative word-of-mouth communication results in a lot more lost customers than one can imagine. As a result, defections mount faster than the company finds out what went wrong.

Satisfied customers, on the other hand, come back for the service, show their loyalty, give referrals, and keep the service alive for future business.

The three phases of purchase behavior reveal that the process of consumer decision about whether or not to buy a service during different phases is complex. It calls for consideration of factors that mostly do not emerge as important when it comes to buying goods. Tangible goods, merely because of their physical attributes, make it easy for consumers to make a decision; intangible services present many a challenging consideration

Evaluation of the purchase process

Figure 15



Service Marketing – A Managerial Perspective by Rod McColl, Bill Callaghan, and Adrian Palmer; (150)

before a decision is made to buy the service or not. The purchase process is diagrammatically presented in the above figure 15.

It is obvious from the diagram that customers take a lot of considerations before buying a service. They evaluate a service during the encounter with the provider and decide whether they are going to continue the use of the service or discontinue patronizing it. The evaluation doesn't stop there; it continues even after the service has been consumed. This is the most serious stage of evaluation. Depending on the experience, that is the level of satisfaction or dissatisfaction, they decide between two options – *repeat purchases* and patronizing the service as loyal customers or *switch suppliers*. This also makes it clear that, unlike goods, most of the evaluation in services takes place after a service has been consumed².

Having had an understanding of the purchase process, we now move on to the objective of learning the next model of consumer behavior in relation to services. We must not lose sight of the fact that consumer behavior in services is shaped by the expectations consumers have and gets modified or strengthened as consumers go through the model of purchase process (evaluation of service). Therefore, the purchase process forms the backbone of the behavior formed by consumers while they develop expectations from a service and the two models work in conjunction with each other.

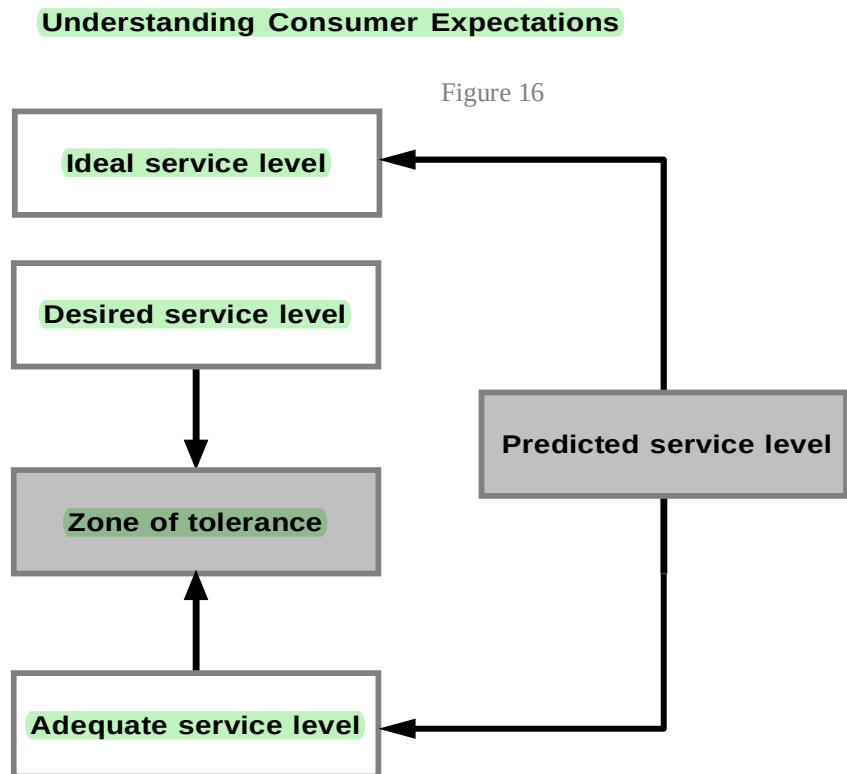
Before discussing the model, we must be clear about one fact that “*the primary objective of service producers and marketers is identical to that of all marketers; to develop and provide offerings that satisfy consumer needs and expectations*”³. In other words, the objective of service sellers is to close the customer gap between expectations and perceptions. Keeping in view this objective, service sellers bring customers into sharp focus.

The model of consumer expectations

Expectations are defined as “*pretrial beliefs consumers have about the performance of a service that are used as the standard or reference against which service performance is judged*”⁴. There are different levels of expectations of consumers as follows:

- Ideal service level
- Desired service level
- Adequate service level
- Predicted service level

Ideal service level: This is the level of expectation that customers **wish** for. Wishfulness always carries elements of improbable occurrences. Therefore, customers know that a service may not come up to the idealistic level. Your courier service delivering business documents to your customers at sharp 9:00 AM every morning amounts to defining the service as ideal. But, that may not be the case every day!



Services Marketing, 2e – Operation, Management, and Strategy
by Kenneth E. Clow and David L. Kurtz: Biztantra (58)

Desired service level: A level below the idealistic point is what customers consider as the desired level of service. This is the level that customers **want** performed by a service seller while they buy a service. The courier may deliver your packages daily at your customers' businesses between 9:00 and 10:00 AM and that is the time you want your packages delivered.

Adequate service level: This level of service is the **minimum** level that consumers tolerate from a service seller. Any service performed below this level is not acceptable. You may accept the service delivering your packages latest until 11:00 AM beyond which time you may consider changing the service seller.

Predicted service level: This level of service is the one that customers **expect** from the seller. Therefore, this varies between the ideal service and adequate service levels.

The accompanying figure 16 graphically illustrates this phenomenon. The reason for variation of this level stems from the level of demand a service is enjoying at a particular point in time. A power utility company will fix the power outage problem of your neighborhood more quickly in pleasant weather conditions than in acute hot summer months when power consumption is at its peak and demand pressure highest. Given such situations, customers adjust their predicted level of service performance. What, however, is clear is that no service should be beyond two levels of service, that is, the ideal service level and the adequate service level.

Summary

Post-purchase phase is a very crucial phase; this is where the level of satisfaction or dissatisfaction is determined. The outcome of this phase lays the ground for next purchase or no purchase in future at all. The last phase could be a testimony to the fact that the customer has taken the service in a positive light, bought it and is now evaluating for loyalty. The factors considered are quality and satisfaction, which strengthen the future behavior.

The model of customer expectation explains how customers develop their different levels of expectations while they go through the purchase process. The two models work at the same time and an understanding of the model of expectations is important so we can manage those expectations to the benefit of the customer and the organization. You will see more of this in the next lecture.

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SERVICES MARKETING**Introduction**

This lecture is a continuation of our learning on the levels of expectations. Having seen that the two limits within which customer's level of expectation is predicted, that is, the adequate level of service and the desirable level of service, we can easily understand the concept of the "tolerance zone" and the role the adequate level of service plays.

Zone of Tolerance

The area within which customers adjust their predictions is known as the zone of tolerance. This area is within the adequate and the desirable level of service. In other words, it is the range within which customers, due to the heterogeneous nature of services and the inherent variability, are willing to accept a certain level of variation¹. With this model, we are one step ahead in our understanding toward how to manage the model of consumer behavior and decision making. There are three lessons to be learnt here.

1. The zone expands or contracts depending on customers' level of expectations as they are willing to adjust those.
2. The zone shapes up in response to so many different factors that impact customers' level of adequate/minimum expectations.
3. The predicted level of expectation is the **point** at which customers adjust their expectations between desired and the adequate levels of expectations.

The predicted level of expectation is, therefore, situational and episodic and depends on the experience customers expect to get in relation to the perceived situation and the episode. In other words, customers have a way of calculating as to how the service should behave and present itself based on past episodes and the existing situation.

Factors that shape up the zone of tolerance

We need to understand the factors responsible that let customers develop different expectation levels in different situations².

Personal Factors: These may range from the level of customers' preoccupation and commitment with their job to a generalized behavior. For example, you may not tolerate other professional (plumbers, electricians etc to be late more than a few minutes if you are a professional yourself and have to attend to serious matters relating your own profession. The zone within which you adjust your expectation is narrow in this case.

In general, you may not like to stand in a line and not being served for more than 10 minutes in a bank or at a super market to make payments etc. The adequate level is a little higher resulting in a lower tolerance zone.

Conversely, you may like to give latitude to providers if you happen to be a retired person and have ample time at your disposal. Your adequate level in this case goes down leading to a larger tolerance zone. Zone of tolerance, therefore, can vary from person to person. Actually, it may vary for the same individual in view of the sensitivity or intensity of a particular situation.

Company-controlled factors: These can affect your adequate level with a change in price or simply on account of pricing strategy, implying that company's decisions can also affect customers' zone of tolerance from situation to situation.

A company charging a premium price raises the adequate level and gives its customers a narrower tolerance zone. A company offering some extra attribute may give customers a wider zone because they lower their adequate level in the hope of getting something extra.

A company offering better distribution raises the adequate level and offers a narrow zone because customers cannot expect the proximity factor not to work to their favor and hence their expectations go higher.

Perceived Alternatives: These equate the external factors during pre-purchase evaluation and are a reflection of the availability of substitutes. The extent of availability or unavailability determines to a large extent the size of the tolerance zone. More options mean, less tolerance and less options mean, more tolerance. Options and tolerance have an inverse relationship.

Customers' self-perceived service role: This plays an important part toward raising customers' adequate level, if they happen to be good at playing their role effectively. Depending on the level of their involvement, customers establish variations in their level of adequate expectations. Their explanation to their architect, doctor, management consultant, or a designer of clothing will make them less tolerant, for they have played their role with high involvement and enthusiasm and now they expect a higher level of service.

Conversely, if a customer is not proactive and does not play his role by initiating contribution, he will be more tolerant. This customer will have a lower level of adequateness, giving more margins to his supplier of service.

Situational Factors: Customers do have a way of attributing things to uncontrollable factors if the same really are beyond providers' control. Such an attribution lowers their expectation and enlarges the tolerance zone.

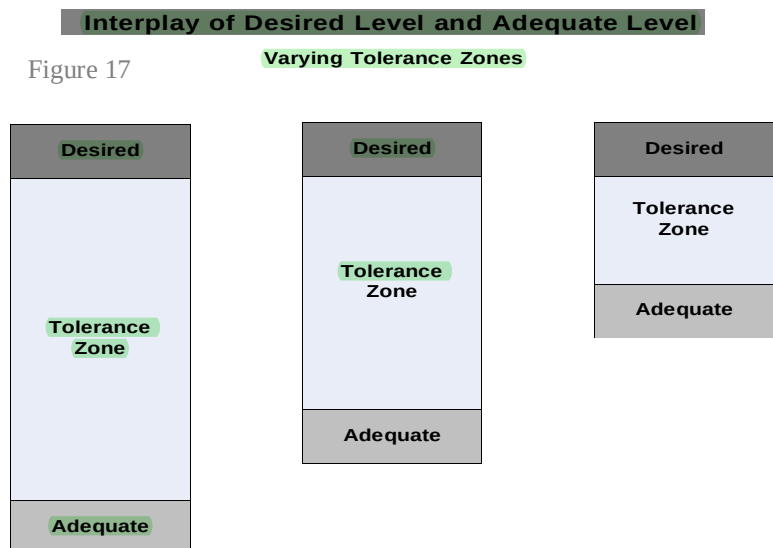
The present day's marketing environment is very turbulent and highly competitive. Companies try to out-compete each other and in the process improve and create new benchmarks. The net result of ongoing improvements is that customers' expectations go higher and the tolerance zone shrinks. Under such circumstances, companies and managers must try hard to get used to working within a narrow zone of tolerance.

This further implies that staying merely above the adequate level is not enough. Although you as a marketer may think that you are well within the acceptable range, but being merely close to the minimum standard you are vulnerable. Therefore, you must try to take your standards high enough to be close to the desired level, staying ahead of competition.

You must maintain competitive advantage and insulate your company from the competitive onslaught. The whole idea is to keep your customers satisfied, make them loyal, and build customer franchise. That's possible only if you exceed the adequate level.

Staying close to the adequate level means staying defenseless and open to competition, ready all the time to get into a position of disadvantage.

The accompanying figure explains interplay of desired and adequate levels of expectations and the



resulting size of the tolerance zone for the reasons explained above, that is, customers' high expectations. It goes without saying that sellers must learn to work within a narrow tolerance zone.

With the understanding of the model of consumer expectations, we can now explain with greater clarity as to how to manage the model of consumer behavior and decision-making. At the heart of this model is recognition of a “need” that marketers are out to satisfy. What are the factors that form customers' needs could be explained with the help of Maslow's hierarchy of needs!

Need recognition

The decision making process gets started with recognition that a certain need exists and it has to be satisfied. In order for marketers to understand the process, their attention should be drawn toward Maslow's hierarchy of needs that explains all the levels humans experience relating their different needs.³ That leads service sellers to evaluate consumer needs from a strategic perspective. That perspective, in turn, helps sellers formulate the right vision, positioning, promises, prices, communication, and other strategic moves for their services. It needs no emphasis that service design and position have to be created in special reference to “service characteristics”.

Physiological needs: This is the lowest level and deals with very elementary needs like food, shelter, clothing etc. These needs have to be satisfied before humans move on to the next level of needs. Mostly need fulfillment is sequential and one level leads to another. Being elementary in nature fulfillment of such needs can be exemplified by a lunch at a snack bar or an inexpensive restaurant, grabbing of a cold drink from a close-by kiosk, and getting the services of an inexpensive tailor for nightwear etc.

From marketing standpoint, it must be clear to the marketer what need s(he) is out to fulfill. Any departure from serving the very elementary need of food must mean that the marketer is out to fulfill a need not essentially elementary in nature. That must necessitate for the marketer to launch a restaurant or food service that fulfills a need beyond being elementary in nature. By the same token, a high profile designer fulfills a need that is far away from the fulfillment of basic need for clothing. And, as such, the designer has to position (her)himself accordingly. Equally important is the need for the tailor making basic clothing not to have a high profile setup that may appear contradictory to his existence.

Safety and security needs: These are concerns about protection from any physical harm. Its marketing implication is reflected by the following phenomenon. The deteriorating law and order situation in our society has attracted mushroom growth of security agencies that provide us protection from any untoward incident. It depends how an agency handles the strategic challenge of emerging as a prime set-up that delivers satisfaction to consumers through the service they buy. A top-of-the-line company differentiates itself from a run-of-the-mill company by showing more sensitivity to the needs of consumers and proving it has a better understanding of services classification than its competitors.

An increase in air travel insurance in the western markets can be attributed to the possibility of terrorist attacks (real or unreal, obsession-filled being beside the point) and, as such, calls for capitalizing on the market growth by insurance companies in light of consumers' concerns. Such are the marketing implications that must be handled very strategically in reference to service characteristics.

Social belongingness needs: These highlight one's desire for affection and acceptance by others. To be part of a certain social group is extremely important for many humans. Social and sports clubs reflect such a phenomenon. People of a certain socio-economic class going to restaurants of their preferences highlight such needs of belongingness.

The marketing implication here as well is the sensitivity toward various need groups and then formulation of service design and development according to well thought-through need-fulfilling

marketing program. The level to which variables of (services) marketing mix are to play their role should become very clear through identification of different need groups. A firm may like to develop a club with excellent restaurants, convention and business centre, a gymnasium, and a world-class golf course in a city and at a location the firm may think will attract optimal clientele. Another firm may like to come up with a bowling alley with a fashionable snack bar for youngsters, while yet another company may identify a group whose need it is to come to an internet café for fulfilling different kinds of online challenges.

Self-esteem needs: These needs are for status, success, and respect from others amounting to self-esteem. These are higher level needs and seek consumers' attention once lower level needs stand satisfied. Such consumers seek to fulfill certain needs that satisfy their ego and enhance their stature in the eyes of others. Seeking to improve oneself through higher education and training is one example of fulfilling such needs. An educated and affluent lady going through a training program that enhances her flower arrangement or interior decoration skills satisfies her ego. An accomplished business manager going through an executive education program not only improves his professional skills, but also commands respect from others for having brushed up his credentials.

The marketing implications for service sellers are to understand such needs to be able to effectively satisfy such needs. From flower arrangement specialists to consultants offering their services to business organization, they all have to fully understand the variables required to effectively and commensurately put their service packages together.

Self-actualization needs: Driven by the desire of self-fulfillment, consumers, at times, like to have unique enriching experiences. Such experiences may range from flying a plane from under a bridge to paragliding to any expensive hobbies setting them apart from the rest of the crowd. Not all individuals tend to seek this kind of satisfaction and not all may achieve such fulfillments. What is important for marketing people is again to identify such needs in relation to the target market and then see how these needs come into play while such consumers go through their process of purchase.

Maslow's hierarchy in a marketing perspective

As is clear through marketing implications of various levels of needs, the very objective of refreshing our knowledge of Maslow's needs hierarchy is to understand the dynamics of consumer behavior in relation to meeting expectations. In other words, how to identify different needs and then coming up with the right response toward development and delivery of their services!

To further clarify this point let us take the example of a club that started from just a small fitness center where members (consumers) came to satisfy their very elementary needs of keeping themselves physically fit. Soon, the sponsors of the club realized that some of them wanted also to socialize beside a routine work-out. The club added an attractive coffee and tea shop going to which members could satisfy their social needs.

By adding a unique feature of having (from time to time) guest speakers specializing in flower arrangements, beauty care, and interior decoration, the management of the club also attempted to satisfy self-esteem needs of male members' wives.

The club also considered adding a golf course to the existing facilities in order to capitalize on its growing popularity, in the process, attempting to fulfill yet another need of the same level though. Such a need could be characterized as a combination of both fitness and socializing. The marketing aspect of all the developments within the club points towards club management's smartness in ascertaining various levels of needs of the same captive audience, attracting new need groups, and then commercially capitalizing on fulfilling their needs through the desired delivery of services, keeping willfully in mind customers (members) expectations.

Summary

In relation to the level of expectations, we have learnt the importance of the tolerance zone and the fact that sellers must try to be as close to the desirable level of expectations as possible. We have also seen into the reasons for variability of customers' expectations causing variations in the size of the zone of tolerance. The lesson for marketing people is to rightly assess the expectations and then try to be much above the adequate level.

Since “need” is at the heart of every service that customers buy, marketers must also understand various levels of needs customers are out to fulfill. Revisiting Maslow's hierarchy of needs provides all of us with a ready reference to a meaningful theory. The marketing implication is to identify the right need groups, analyze their purchase criteria and evaluation process, and then offer service packages in light of resources and the variables of marketing mix available to the company.

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SERVICES MARKETING**Introduction**

Consumer expectations play an important role all along the three phases of the purchase process. An understanding of different levels of expectations and consumer behavior lays the foundation for managing those expectations. Before managing expectations, we would look into the roles played by expectations to be able to manage them effectively.

Role of consumer expectations

In the pre-purchase phase consumers ponder over who to patronize while purchasing a service. As discussed earlier, there are a few factors like past experience, word-of-mouth, and a firm's reputation that make consumers decide on the service seller. Of all these factors, past experience takes precedence, for services being experiential in nature. Once they have tried a service seller, they would like to stick to that seller if the experience has been good. Consumers generally do not like to be adventurous in trying new sellers who may have possible shocks in store for consumers.

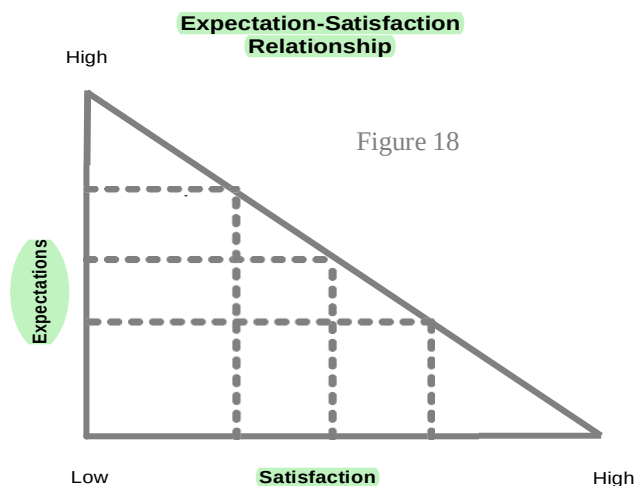
During the service encounter, consumer expectations are often modified.¹ The predicted level of service, the adequate level of service, and the zone of tolerance generally change. The variables of change are the actual encounters during which changes, positive or negative, take place. If a tour operator provides you with an un-air-conditioned transport at Jeddah Airport, you probably will find that against your expectation and hence a change. Another cause for lower expectation along your trip in the shape of lower quality of food or punctuality of movement will definitely give you reasons for not using the same service next time. It will also activate you to spread a negative word-of-mouth that has the potential to affect the service among its future prospects.

In the post-purchase phase, consumer expectations become the basis of evaluation of the experience gotten. Comparison of the experience against expectation either lets you believe that the service exceeded the predicted level of service or fell short of it. In the former case, you find yourself satisfied while in the latter dissatisfied. Satisfaction will lead you to strengthen your future behavior in relation to the same service, while dissatisfaction will force you to switch supplier.

In case of experience exceeding expectation, both the predicted and the adequate levels of service move up. They cause an upward shift of expectations next time the service is bought. In other words, services when delivered well do redefine their benchmarks increasing the management challenges. While this scenario, on the one hand, is more challenging, it does offer the service to strengthen loyalty among consumers. A good service firm that delivers well and efficiently deals with a narrow zone of tolerance, meets the challenge and keeps its consumers loyal to itself. On the other hand, a declining service quality negatively affects the service.

Managing consumer expectations

There is a delicate balance between meeting expectations and keeping customers. Rightly managing expectations, therefore, is a delicate job that must be performed to make sure that a service seller does not lose customers. Managing expectations rightly is all about maintaining and adding more customers.



Service sellers find themselves in a dilemma when expectations about their services are high. The higher the expectations, the *higher* are the chances that

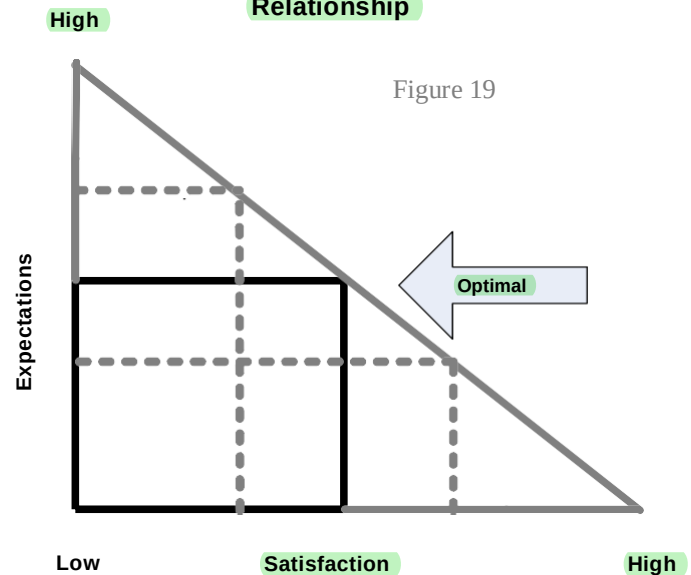
a higher number of consumers will patronize the service. The lower the expectations, the *lower* are the chances that a high number of customers will patronize the service. At the same time, the higher the expectations, the higher are the chances there will be *more dissatisfied customers*; the lower the expectations, the higher are the chances there will be *more satisfied customers*.² There is, therefore, an inverse relationship between expectations and satisfaction.

With higher expectations, customers generally get disappointed while with lower expectations they commonly get surprised by the goodness of service. A minor lapse on part of the cabin staff of a well-reputed airline may force you to drastically change your opinion about the airline, for that is against your expectations. A small unexpected care by the cabin staff of a relatively unknown airline may give you a pleasant surprise, for you did not expect that part of the service.

To keep themselves from such a tight spot, service sellers must manage expectations in a way that their services are neither over-promoted nor under-promoted. The challenge for service sellers is to promote the exact service and deliver it in the way their customers expect.³

Just like in other aspects of service selling, management of consumer expectation is also carried out during the three phases of pre-purchase, service encounter, and the post-purchase one. Service sellers must adopt strategies that take care of the problems of over- or under-promotion.

Expectation-Satisfaction Relationship



Summary

Expectations play vital roles during all the three phases of the purchase process. During the pre-purchase, expectations make consumers develop references to know about the service. Sellers have to be sensitive to the importance of this role and keep their reputation high to attract customers. During encounters, expectations get modified on the basis of customers' actual experience. The significance of this phase, as such, lies in sellers offering what they had promised and not to let customers draw any negative experiences. Post-purchase has its own importance in that this is the phase in which customers decide about their future behavior, going for a repeat purchase or switching supplier.

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SERVICES MARKETING

Introduction

Just like other aspects of service selling, managing expectations also deals with three different phases of the consumers' purchasing process mentioned hereunder. Due to the importance of the quality-satisfaction relationship, the lecture looks into what determines satisfaction and takes customers into the area of loyalty. Loyal customers are a testimony to the fact that a company is effectively managing their expectations.

During the pre-purchase phase: The challenge for sellers is to *rightly determine* expectations, communicate to customers *what is offered*, and *consistently* provide the service.

As a first step, the seller must determine rightly **what consumers expect** from the service. Factual expectations can be generated through telephone contacts and well-structured, but simple market research. Sales, service, and operations personnel can play a practical role in unearthing what really is at the bottom of consumer expectations.¹

Not **over-promising** is the essence of the second step toward making sure that sellers do not communicate what is not part of the service. Sales, service, and advertising personnel in particular should not talk about features that are not attributable to the service just to lure customers.

Actually, promises are made through two different forms of communication, explicit and implicit. All personal and non-personal statements by these personnel are explicit service promises. Explicit service messages influence expectations and are fully within the control of the service providers.²

Implicit service promises are service-related cues that lead to inferences about what the service should and will be like.³ Out of such cues, physical evidence comes into the forefront. It should not be out of proportion with the actual service product features. Overdone tangible signals at the servicescape may mislead customers into building false expectations. By the same token, overly flashy personnel not fully conversant with their job may also send wrong signals about the service thus spreading negative word-of-mouth.

A consistent service that matches with exact expectations is the third vital step during this phase.⁴ Consistency, as an attribute, attracts new customers and strengthens loyalty among the existing ones. For existing ones, it becomes an integral part of the experiential side while for prospects consistency serves as the main driving force of attraction to the service. Therefore, the challenge before managers is to create such a reputation for their service that customers trust that service as being consistently reliable. It further implies that the element of variability must not present itself to the detriment of the service.

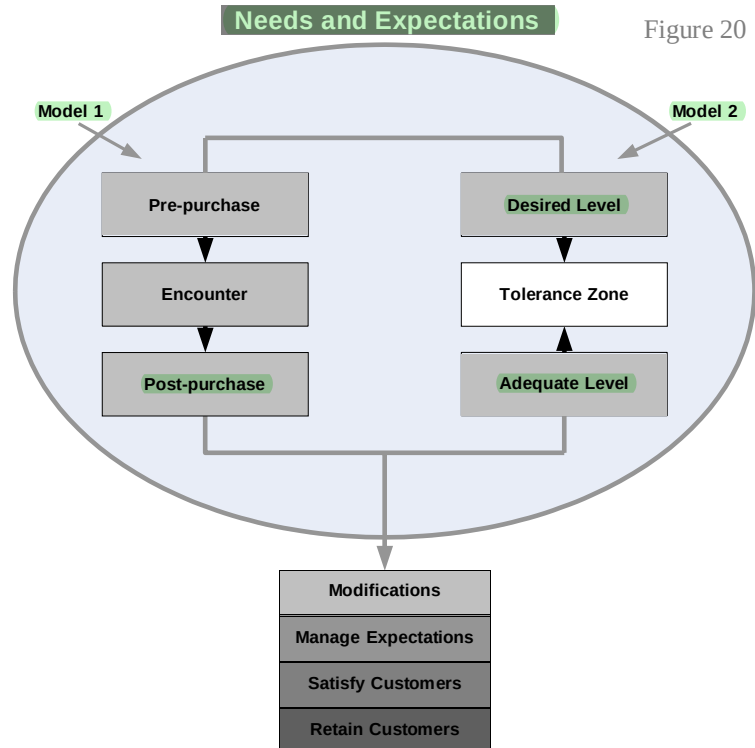
During the service encounter: Service providers must manage service during the encounter with consumers to their benefit and to that of the company. This calls for making adjustment to service delivery in view of consumer expectations. If modification of service is not possible, then the provider should be straightforward enough to communicate with the consumer.⁵ Straight forward communication during the encounter phase reflecting genuine inability of the provider to deliver according to consumer expectations is mostly appreciated by customers.

If same-day delivery is not possible, a service provider at a courier service must communicate with the buyer to explain why it is not? Not only will the explanation make genuine sense, it will also add to the integrity and reliability of the seller.

During the post-purchase phase: Managing consumer expectations take on a significant form at the conclusion of a service. The basic objective of this exercise is to make sure that the promise has been delivered exactly according to the expectations of the consumers. If not, then what could be the possible measures to bring about *modifications* over a longer run in a way that those *modifications* become part of the standard procedures? The management of this phase basically takes the following three forms:⁶

1. Communicating with the consumer immediately after the service is sold to find out if the promise was equal to the expectation. Findings are analyzed to see any gaps between the promise and the expectations.
2. Getting into a follow-up program that is research driven and conducted by phone or mail to find out consumer experiences. The results are subjected to analysis to gauge satisfaction.
3. Developing a procedure to deal with dissatisfied customers, in the first place, to pacify them and, in the second, making corrections in the present procedures to ensure there are no customer losses to competitors in future.

It is obvious from the three-pronged strategy that the basic objective of managing consumer expectations is to make sure that expectations are met in future at all costs. Any modifications desired are made, expectations managed, customers retained and repeat purchases ensured! Our learning of the two models of consumer behavior is graphically summarized in the figure 20.



Satisfaction and Quality

With the understanding of managing expectations, the key objective emerges to satisfy customers. What satisfies customers and what elements of service they look at and evaluate to gauge their satisfaction must be learnt!

Satisfaction basically is consumer's fulfillment response. Consumer responds positively if he thinks his expectations are fulfilled. A satisfied consumer sticks to a service and goes through a service cycle, which means buying of that service repeatedly over a period of time. During the cycle, however, the level of expectations change and marketers must manage those.

What determines satisfaction?

The following factors determine satisfaction?

Product and service features: Satisfaction is deeply influenced by the features of a service. Desirability is a must. Features of a privately managed hospital include good rooms, wards, highly hygienic conditions, good doctors, availability of support staff at one call, and a well-stocked pharmacy. A health club's features are good location, a variety of equipment which is well-maintained, and diverse facilities for different need groups etc.

Customers look at all the features. However, they make certain trade-offs among features like pricing versus quality versus friendliness of staff versus their ability etc. depending on the kind of service and the criticality of it.

Consumer emotions: These play an important part. Given that all features of your service are well in place, you may still not be able to satisfy the customer only because he is in a bad mood. Conversely, if he is in a good mood, he may as well overlook certain lapses.

Service providers should bring in modifications that may not allow the customer to be negative toward the service. Providers must create feelings of *happiness, pleasure, and elation* to overcome *anger, depression, and despair* on part of customers.

Attribution for success: When consumers are pleasantly surprised by an outcome, they like to attribute reasons to that outcome. You may refer to the example of a relatively unknown airline that has the potential to give its customers a pleasant surprise and hence a high level of satisfaction.

Perceptions of equity and fairness: Customers get into comparisons and see whether they have been treated at par with others. The feeling of parity gives them satisfaction. Standing in a queue and seeing the airline's ground staff urging all to form a line with no discrimination for VIP type customers gives customers a sense of fairness.

Similarly, customers like to compare the price they have paid for the service they get. This leads them to assess to what extent the providers have been honest or not honest.

Other consumers, family members, and coworkers: All of them influence customers' level of satisfaction by giving their impressions. A less than positive impression can change a customer's perception of satisfaction if most of his colleagues are satisfied with the software developed for the company.

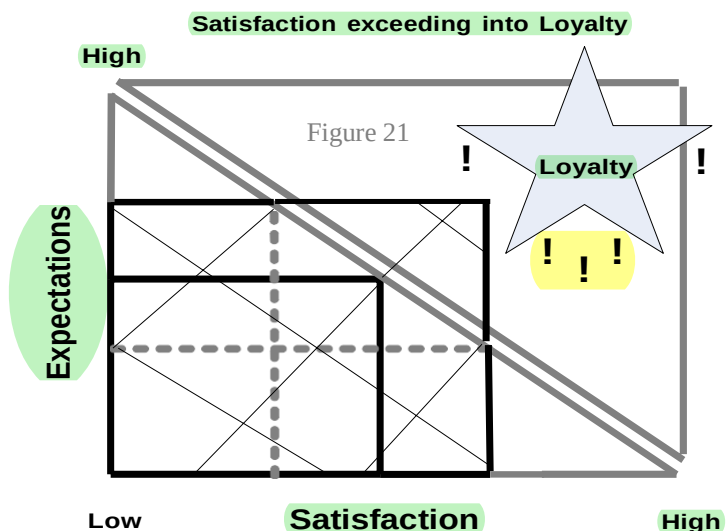
Importance of satisfaction in macroeconomic terms: Satisfaction has taken on very important dimensions. Many countries consider satisfaction as an indicator of economic prosperity. They have created a national index that measure satisfaction, for it directly relates quality of life.

Like traditional measures of output, productivity, and prices are indicators in terms of quantities, satisfaction is a measure in terms of quality. They go on to believe that satisfaction is correlated with economic measures like stock earnings and value.

If you go a step further down, you can relate satisfaction with profitability and loyalty at the firm level. It is argued that just an attempt to satisfy customers is not sufficient. Firms must create loyalties. That is why companies are spending so much on satisfaction and loyalty programs.

Firms must develop a culture that enables it to satisfy customers by way of having all the abovementioned factors work to its favor. Given that firms do have a way of doing that on a consistent basis, they can develop customer loyalty that goes beyond the zone of satisfaction and can be explained with the help of the accompanying figure 21.

A higher level of expectation corresponds to an equal higher level of satisfaction, which was not the case previously.

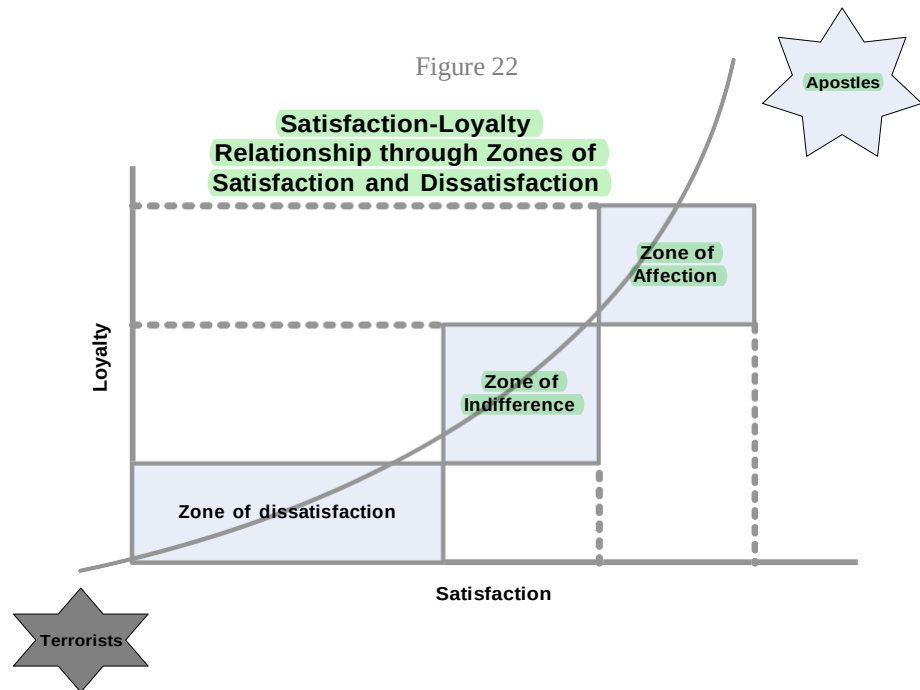


What enables the sellers to exceed the previous relationship bound into the triangle of figure 20 is its ability to have all the factors that determine satisfaction work to its favor.

Highly satisfied customers are also known as *“apostles”* who carry good word of mouth and talk about the service in public. Less or reasonably satisfied ones are in the middle and can be vulnerable. These are *“indifferent”* customers, who may not be loyal to the service. Dissatisfied customers are *“terrorists”*, who talk vehemently against the service to its detriment.

Figure 22 presents the concept graphically. The important factor here is to understand the importance of the zone of indifference. Companies must

work to turn these indifferent customers into highly satisfied and eventually loyal customers. The difference between satisfied and highly satisfied customers may look very subtle for both the categories falling into the broader category of satisfied customers. But, the implications of this seemingly subtle and slight difference are highly meaningful in terms of marketing and sales.



Xerox, in the 1980s, discovered through its extensive customer research that customers giving Xerox a 5 (very satisfied) on a satisfaction scale were six times more likely to repurchase Xerox equipment than those giving the company a 4 on the same scale.⁸

Summary

Expectations are managed during all the three phases of the purchasing process. To manage them well, marketers must understand the interplay of the two models of consumer behavior that work at the same time. They can then make any modifications need to be made in light of customers' expectations, make them permanent as part of their systems, and manage expectations for customer satisfaction and ultimate retention.

Only loyal customers can be retained. We have to understand the relationship between quality and satisfaction. Knowing what determines satisfaction, sellers can work on not only completely satisfying their customers, but also go beyond that into developing loyalty on part of customers.

Satisfaction is a function of quality; in the absence of quality there is no satisfaction. Therefore, it is important to learn what elements of quality are evaluated by customers to feel satisfied and stuck to the service.

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SERVICE MARKETING**Introduction**

Satisfaction is a function of quality; in the absence of quality there is no satisfaction. Therefore, it is important to learn what elements of quality are evaluated by customers to feel satisfied and stuck to the service. Generally, quality evaluation is done by considering elements like outcome, interaction, and physical evidence.¹ Zeithaml 92

Dimensions of quality

Customers look, first of all, at the outcome of the service and then assess it on both dimensions of the quality scale - technicality and functionality. The service has to fall on the merits of both the dimensions. However, certain services prevent customers from making an assessment on the technical side due to their being high on credence. For example, a medical service or a lawsuit will keep a customer from drawing an immediate assessment of the technical side (outcome) of the service until the time results come to the fore. Results in both the cases will take time to appear. In such situations customers have no option but to base their assessment on the quality of interaction and physical environment's cues.

Different services reflect different intensity of these factors. Medical service and the lawsuit will reflect interaction and the outcome; restaurant will reflect all the three, whereas ticketing will highlight the outcome and the physical evidence. "Customers do not look at a service in a uni-dimensional way, but rather judge quality based on multiple dimensions relevant to the context."² Zeithaml 93

Such dimensions are extensions and subdivisions of the factors mentioned above. For example, the quality of service by an airline on its international flight is judged by the level of warm reception the cabin crew gives the passengers while they board the plane, details of safety during the flight, kind of in-flight food it serves, the courtesy with which it serves, the frequency of its offer to passengers for any additional servings of breads and drinks, and the post-food care while passengers relax toward the scheduled time of the flight's arrival. The quality of service by a TV repair company is assessed by such factors as technical expertise, reliability, and integrity of staff.

A broadly acceptable criterion that fulfills most dimensions of quality relating different products and industries is the one that is required to assess quality. To identify such a criterion, experts have come up with five major dimensions against which the quality of any service can be judged.³ Zeithaml These are *reliability, responsiveness, assurance, empathy, and tangibles*.

It is important to note that consumers may not evoke all dimensions while judging a service. ATM and drop-box facility for withdrawal of cash and depositing your credit card bills may not require empathy. A phone call for information collection may not signify the appropriateness of the tangibles and rather highlights the need for courteous interaction.

Reliability: It is a measure of how dependably and accurately the service is delivered – according to the promise. The promise that is fulfilled is a reflection of how close the company is to the features and the delivery mechanism of the service. And, to what extent the service is resolving the problem and fulfilling the need.

Although every service company has to be reliable, it still can be one of the dimensions against which a company can position itself, if it really delivers the service according to the promise and considers such a feature as its prowess. Take the example of the insurance company that settles claims within 24 hours and proves its reliability.

We may reflect on the fact that reliability is such an important measure of evaluation of quality that consumers consider every company to be reliable even if it is not positioning itself around the core of reliability.

Responsiveness: It is the willingness of the company to be helpful and prompt in delivering the service. Attentiveness and the amount of time given in response to customers concerns and problems define the dimension of responsiveness. Customers must get the feeling that their problems are being addressed. The standards of speed, promptness, and duration should be defined from customers' standpoint. To follow standards, the company must have staff fully trained to be responsive.

If you happen to be a company in the area of internet and manage servers for users at different locations, your staff has to be extra responsive in resolving IT problems on the phone while your customers sit before their computers trying to manage their data needs.

Online travel service, mobile telephone services, and banking services personnel have to be similarly responsive and attentive. Encounters take on added importance here, whether those are telephone, remote, or face-to-face encounters.

Customers' perceptions of responsiveness get hurt if they are put on hold for a long time or made to go through lengthy mechanically designed phone responses with no human interaction, or made to stand in line for a long time.

Assurance: It is the ability of a company to instill trust and confidence into its customers. This happens if the staff is fully competent and willing to be responsive toward selling those services that are hard to evaluate by customers. Company staff develop a relationship and become a bridge between the company and customers while they sell high-risk products about which customers look up to someone giving them confidence.

The concept of personal banker or key account managers fit in here. These people look into the individual needs of their customers and customize solutions for them. Financial securities brokers, insurance agents, IT specialists, and legal counselors fall within this category.

Providers have a tremendous opportunity to shape encounters that lead toward purchase, satisfaction, and loyalty. The eventual outcome of loyalty owes to features of the service and staff's ability to infuse confidence and trust. Trustworthy organizations develop loyal customer bases that are retained over a long period of time.

Empathy: This is all about providing caring and individualized service to customers. Customers want to be handled as important people and any company giving a personalized service that makes them feel important gains an advantage in terms of customer perceptions. Small firms generally excel in this quality by knowing their customers by name and understanding their requirements. In many B-to-B transactions, small companies pit themselves against bigger competitors and end up as winners, for they seem to have better knowledge of their customers owing to the quality of being more empathetic.

Tangibles: This represents the facility physically. Already known to us, the importance of the tangible evidence along with other quality dimensions of responsiveness and empathy in particular strengthens firm's reliability and hence customer perception. We can confidently conclude from the elements of quality assessment that encounters play an extremely important role toward all these. 

The importance of encounters

The abovementioned dimensions come into play during encounters, which have been termed as the "moment of truth" by experts. This is where the true test of quality is conducted.⁴ Zeithaml (99-104) Important facts to remember about encounters are:

- first impression is the most important one;

- all encounters have to be positive;
- one can ruin the whole positive experience; and
- the global experience has to be positive.

Encounters could be of three types:

- Remote
- Telephone
- Face-to-face

ATMs and interaction through websites are examples of remote encounters; the processes should be simple and straightforward that do not unnecessarily pose undue challenges to users.

Utilities and repair companies are the ones with which customers generally get into telephone encounters; it is incumbent on the providers to show courtesy and promptness on the phone and assure the callers of their complete help toward the solution desired by customers; variability must be avoided under any circumstances.

For face-to-face encounters, providers must revert to the “script and role” theory to be able to make the encounter a positive one.

Critical incident technique and the themes of satisfaction/dissatisfaction

It is obvious that quality perceptions are built during encounters. Researchers trace the causes of satisfaction or dissatisfaction to the quality of encounters and have attempted to identify the sources of such satisfaction or dissatisfaction. They have developed a technique called “*critical incident technique*” (CIT) to analyze the incident that led to either satisfaction or dissatisfaction. The technique works by having customers tell stories exactly the way incidents took place.⁵

The stories are analyzed to determine the variables leading to either satisfaction or dissatisfaction. On the basis of thousands of stories, four common themes have been established by experts.

- Recovery
- Adaptability
- Spontaneity
- Coping

Keep in mind that actual stories reveal where on quality dimensions companies have gone right or wrong. The right approach is strengthened for future benefits, whereas the wrong approach is corrected for future adjustments. In other words, by getting into the common themes through CIT, sellers have a way to find out their mastery or the lack of it over the five dimensions of reliability, responsiveness, assurance, empathy, and tangibles.

Recovery: It is essentially a response by providers to compensate for a failure of the delivery system. The employee is required to come up with a response to customer’s complaint or disappointment. On the basis of the response, customer evaluates his level of satisfaction and hence the quality of service.

A hotel manager offering a customer free food only because the customer was not given the room of his choice is an example of recovery that might result in satisfaction. A courier company offering a customer free delivery in lieu of a parcel that was delivered late at destination is another example of successful recovery. Customer will look upon the hotel management as responsive and empathetic.

It recovers the tarnished image and adds back to the positive episodic experience. If the case is otherwise, there is no recovery. If the same courier was to argue that the belated delivery was no fault of theirs and try to attribute the cause to bad traffic, then it hardly helps to recover the tarnished image of the company.

On a telephone encounter, a service representative not being helpful in correcting the utility bill is an example of non-cooperation, lack of responsiveness, and hence inability to recover the negative episode.

Adaptability: It is a response of the provider to customers' special needs and requests. It basically is a test of the delivery system as to what extent it can be flexible to entertain special needs stemming from demanding customers or demanding circumstances. It takes us back to managing expectations and offering extra facilitation, if we can!

It also takes us back to the topic of maintaining balance between procedures and empowerment. Employees not being able to please their customers get frustrated for not having the power to please them, because they cannot adapt to the situation for the lack of empowerment.

Let us take the example of a service firm that has sent its workers to fix your air conditioners at odd hours during the peak season. You may not have expected a prompt response, but still made a request and the provider showed adaptability to your demand situation. Also interesting to note is the possibility that it may not have been a great flexibility from the provider's standpoint for he was contemplating to adjust demand between different periods. The fact remains that for the customer it certainly is an extra service that is customized to his needs.

Spontaneity: It is about unwarranted and unsolicited response from employees of a service provider. This implies employees doing things on their own without customers having to ask them for what they do. Such responses could be positive as well as negative. Positive ones arouse feelings of delight, elation, and importance on part of the customers, while negative ones throw them into a state of dissatisfaction and frustration.

Spontaneity can do wonders when it is positive and destroy company's image when it is negative, even when the service delivery is fine and there is no extra demand from the customer, meaning no need for recovery or adaptability.

A hotel receptionist having someone escort you to the room as a spontaneous move will delight you and make you feel very important as a customer. A doctor taking you in for an emergency encounter without any prior appointment and then giving you a detailed diagnosis of your medical situation beyond your expectations and the general standards is another example of spontaneity.

Coping: It is the ability of employees to cope with problem customers. The underlying theme explains how problem customers create difficult situations for themselves, become the basis of a negative encounter and then dissatisfied customers.

The response from the provider is "do nothing", meaning not show a reaction in the hope that the customer might feel ashamed of his behavior. There are situations in which the providers have to take initiative to correct the situation even at the cost of losing that customer, for such customers behave against the rules and law.

A customer misbehaving with the ground staff of the airline on account of flight delay due to bad weather not willing to attribute the cause to circumstances beyond the control of the airline is a problem customer, who is the source of inconvenience to others. If the customer does not behave it becomes incumbent on part of the staff to take the customer to task for the convenience of others.

The themes discussed emanate from personal encounters. With the application of more and more technology, remote encounters are gaining importance.

Satisfaction with technology based encounters

Customers are interacting with companies via internet websites, automated phone services, and services delivered via CDs and DVDs. Such interaction is known as "Self-Service-Technologies" - SST. Customers

find technology-based services as helpful and supportive when there's an emergency and the alternative is not workable. Cash withdrawal at an odd time is supportive.

What customers care for is the saving of time and the solution of the problem. These factors are termed as thrilling by customers.

Customers feel dissatisfied when the technology meant for facilitation runs into problem and causes delays. You might have experienced providers (banks, travel agencies, and utility bills companies) telling about their system having gone down and subsequently causing you frustration.

Customers have their own way to evaluate which system is better. If the system of a bank goes down frequently, then you are bound to draw a conclusion about the bad quality of the system, processes, and maybe people as well.

Customers also evaluate systems as poor on design parameters if they are dealing with a complex website or a system consisting of too many menu items causing confusion. The disadvantage with the SST is its inability to offer themes like recovery and adaptability. With the advancement, what can be assumed is a continual improvement of technology that will offer better systems with less number of failures.

The objective will always remain better delivery of service to customers for their retention.

Summary

Satisfaction is a function of quality. Without quality there is no satisfaction. Customers consider three major elements while they assess quality of a service, namely, service outcome, quality of encounter, and the physical evidence. Outcome consists of the technical as well as the functional side of quality. Encounters and physical evidence play an important role toward assessment of a service when technical side of the service is difficult to assess owing to service's credence properties.

To establish the functional side of quality, experts have identified five different dimensions as the standards against which services of all kinds can be assessed in detail. These are reliability, responsiveness, assurance, empathy, and tangibles.

In order to make sure that providers fall on the merit of the abovementioned functional dimensions of quality, experts go on to suggest that providers undertake "critical incident technique", which traces real life stories to determine whether the customers have been satisfied or dissatisfied. The level of satisfaction or dissatisfaction can then be viewed in light of the four themes that experts have developed. These themes of recovery, adaptability, spontaneity, and coping let providers analyze to what extent working of their people can be maintained, corrected, or further improved on the functional dimensions.

Encounters of different kinds take on an important role, since they are the "moment of truth", and the functional dimension of quality are exhibited by providers during encounters. Self-service technology encounters are catching on owing to developments of technology. However, sellers have to be sensitive to their advantages and disadvantages.

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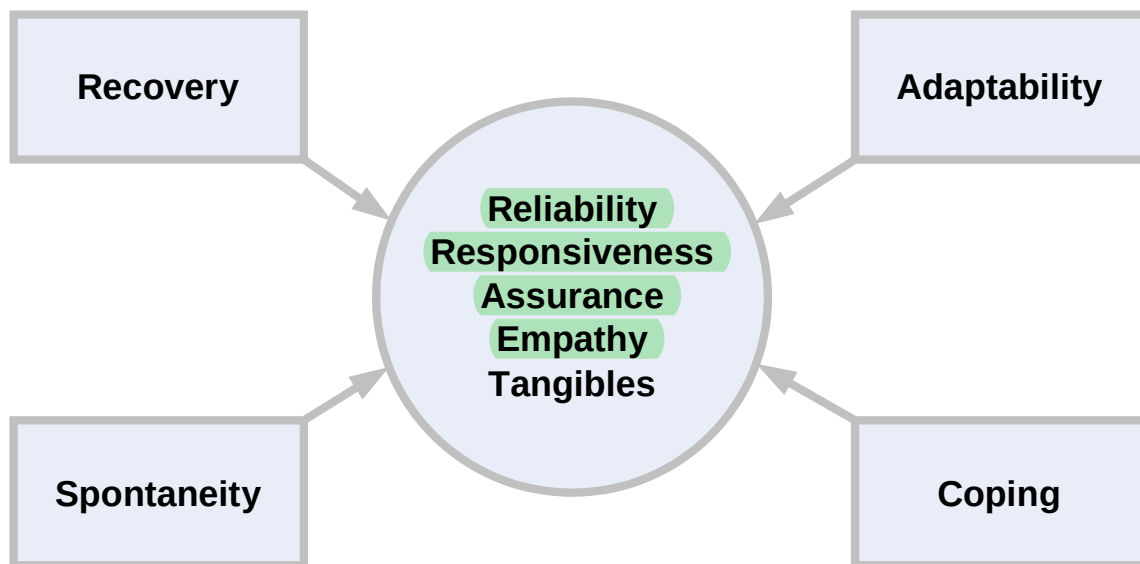
Satisfaction and quality are the two key concerns that any provider must have. Service companies try to achieve that by making no mistakes – having “zero defects”. The achievement of this objective is possible only if providers understand the elements of quality and are willing to work within the four themes of *recovery, adaptability, spontaneity, and coping*.¹ The lecture throws light on this working, which can be made strategic by formulating the right strategies for every theme.

Plan for effective recovery: If service is not delivered right the first time, providers must do to compensate for that. They must also look into the cause and eradicate it from the system, meaning they should carry out a systems analysis for assuring corrections the next time. This takes on importance from the variability standpoint. According to experts no service organization is immune from variability.

Facilitate adaptability and flexibility: Providers must show these qualities whenever possible to make customers satisfied. However, adaptability and flexibility must not mean acceding to customers' unreasonable demands all the time. Willingness to be flexible along with expression of constraints wins customer's admiration.

Quality Dimensions and the Themes

Figure 23



Encourage spontaneity: Companies, as a matter of strategic goals, must strive to develop a culture of positive spontaneity. A strong culture characterized by empowerment, employee training, and quick feedback helps generate spontaneity. A lot of attention must be given in the area of HR to hire people with strong service orientation.

Help employees cope with problem customers: The most important strategic move here is to develop skills among employees that prepare them to deal with problem customers with confidence.

As we can see the above strategies take us into a larger strategic area of

- Training
- Rewards systems
- Internal process improvements
- Organizational structure

If companies can strategically exercise the basic dimensions/elements of quality within the four themes, then they can logically formulate overall business strategies comprising the above. They may need to train their employees according to the lapses they identify through CITs relating different dimensions and elements of quality.

To ensure implementation of good standards, they may have to announce reward systems, for which they may also have to get into programs of systems improvement. The whole effort may have a bearing on the organizational structure for a change. A systematic understanding of the dimensions and themes can lead companies into developing the right strategies. Refer to the accompanying figure 24.

To facilitate our understanding, we can take the example of a modern motor car service garage (put up by local car manufacturers like Honda, Toyota, and Suzuki etc) and see how the working of service personnel can have a fit with the concepts.

A customer will find the service **reliable** if the problem is fixed and the job is done by the time it was promised. The customer will find the outfit **responsive** if

he does not have to wait unnecessarily, go through

tedious procedures, and repeatedly request technicians to evoke responses on his minor enquiries. Realizing through quality interaction with the workforce their total grasp on technical matters, he will find them very **assuring**. If he also finds some of the workers acknowledging his name and the previous problems with his car, he certainly will find them **empathetic** as service people. This situation results in customer satisfaction.

What will be the strategic implications if the garage could not, due to any given reasons, satisfy the customer. The management will have to trace the actual cause that may lie in one or a combination of areas of the basic dimensions of quality. The diagnosis will require relating the cause with the corresponding

Elements of Quality Evaluation and their Strategic Implications

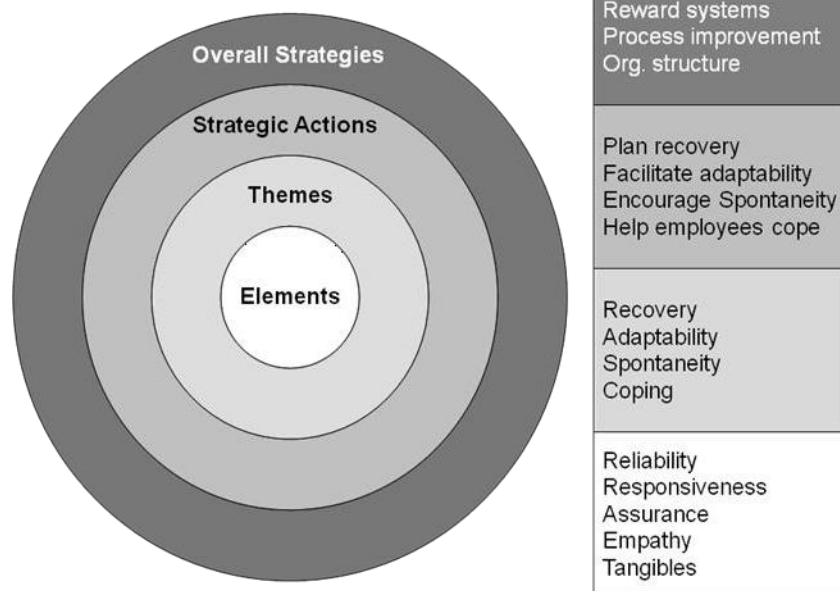


Figure 24

theme(s) necessitating relevant strategies. The strategies of planning recovery, facilitating adaptability, and encouraging spontaneity will come into the limelight in terms of the extent of their applications.

Finally, the strategic formulation will have its bearing on either one or a combination of the overall strategies of training, reward system, process improvement, and redoing the organization structure.

Summing up the basic concepts

With the learning of the quality-satisfaction relationship, we have completed our understanding of the fundamental concepts of services marketing that will help us better analyze, design, develop, and maintain our service to the satisfaction of our customers.

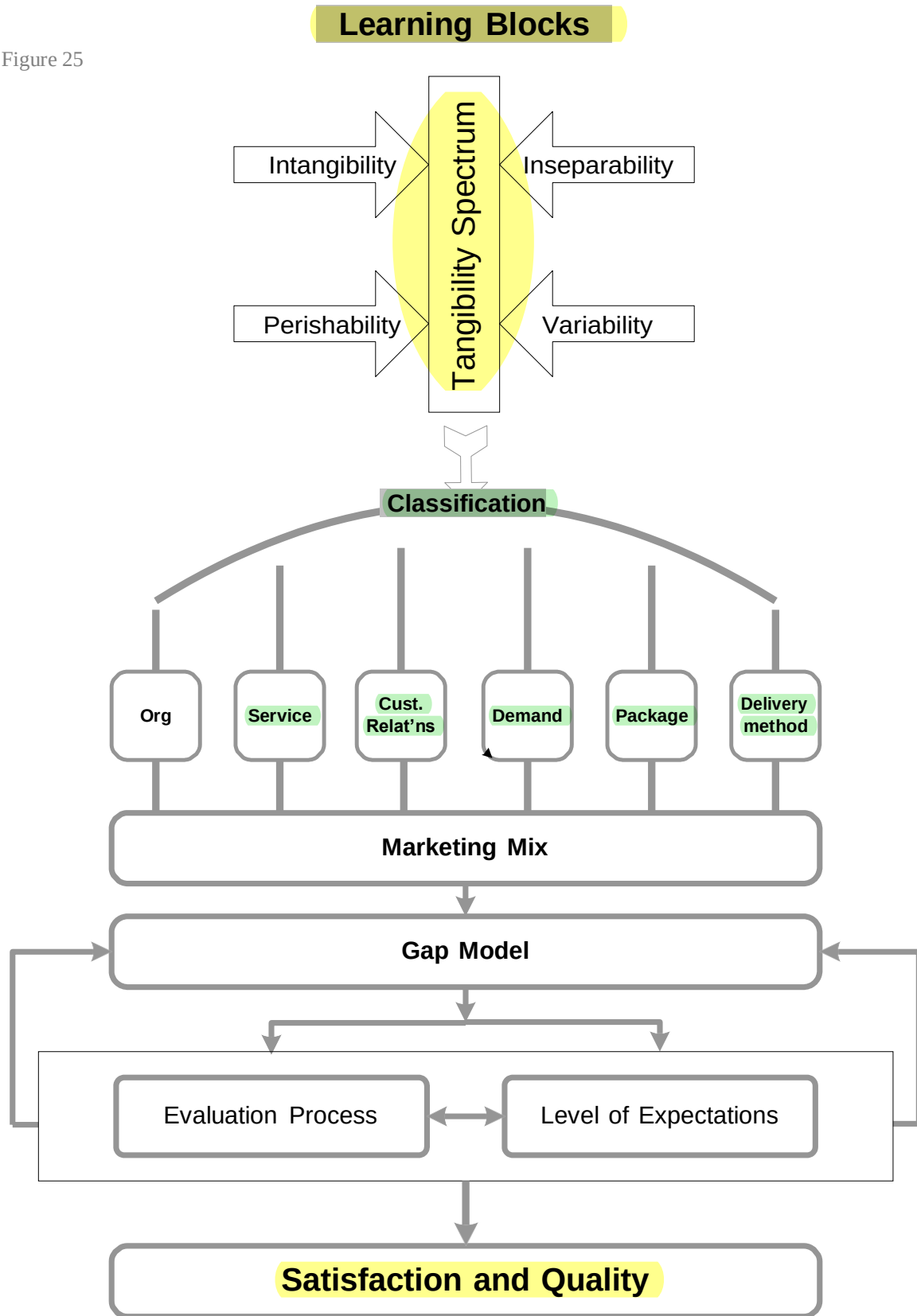
As we can see from figure 25 on the next page, we have learnt four characteristics of intangibility, inseparability, variability, and perishability inherent in services. Having also learned the classification of services, we moved on to developing a clear understanding of the variables of marketing mix for services. The need to have three additional Ps came into limelight.

We then moved on to the gap model, which lays the foundation for dealing with services in a highly strategic way. To better understand the gap model, we have educated ourselves about two models of consumer behavior, namely, the evaluation of the purchase process and the levels of expectations.

The above concepts lead us into critically seeing the vital relationship between quality and satisfaction. Equipped with the knowledge gained in the manner described above, we shall now look into the strategic areas gap by gap.



Figure 25



Filling up Gap 1

We shall start with what it takes to fill gap one, which is between expectations and management perception. Gap one occurs because the company has an erroneous understanding of what customer wants. Companies like to think what customers should want and not what exactly they do want. They have inside-out thinking and not outside-in considerations.

The gap occurs because the decision makers are not close to the customer and do not carry out research to exactly find out their requirements. In the absence of an accurate understanding, the resource allocation for different moves produce sub-optimal results for the simple reason that the company is not headed toward the right destination. Priorities get debased and hence deviate from the actual mission. Some of the approaches that have been discussed by experts toward dealing with gap 1 are briefly mentioned hereunder.²

Segmentation: One argument could be that the study of segmentation is a guide toward making service products for people of the same expectations and demographic and psychographic profiles. But, this also may not work in closing the gap for the fact that for services customers have unique sets of needs that generally require customization.

Segmentation therefore needs a fresher look owing to customization. Providers may have to go for mass customization in different situations. Different customers will want to have different flower arrangements at their events. Customization therefore becomes taxing, brings in variability, but at the same time offers the opportunity to charge premium prices from within the same segment and across segments.

Relationship marketing: Experts put emphasis on maintaining relationships with customers; such cultivation brings companies closer to customers and hence offers opportunity to close the gap. Loyalty programs are launched with the dual objective of retention and a better understanding of customers' expectations. Transactional marketing is a traditional effort to close commercial transactions and acquire new customers, but relationship building goes a step beyond that and lets the providers understand the changing needs and expectations.

Need for recovery strategies: Despite good understanding and knowledge of customers' needs and expectations, providers still cannot stop the gap from occurring. It is the overall characteristics of services, the inseparability in particular that brings in variability. Experts maintain that due to variability failure at times is unavoidable and therefore strong recovery strategies are inevitable to close the gap.

Marketing research: Whether we deal with segmentation, customization, or recovery, the significance lies in exactly pinpointing the expectations and the compatible effort to come up to them. It is not possible to achieve that goal unless we have a way of establishing that through structured marketing research.

Summary

The four themes of recovery, adaptability, spontaneity, and coping should be used in a strategic way in response to any problematic emerging situation. The benefit of analyzing problems with the help of themes is that providers can strategically analyze and pinpoint the problem area and then get into the overall strategies required to institutionalize change for the benefit of the organization.

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Whether we deal with segmentation, customization, relationship marketing, or recovery, the significance lies in exactly pinpointing the expectations and the compatible effort to come up to them. It is not possible to achieve that goal unless we have a way of establishing that through structured marketing research. This lecture throws light on the importance of marketing research and the role of quantitative and qualitative research.

Objectives of research

Experts contend that research should take place as a program and not as isolated studies. The need for a program arises because there are many facets of customer requirements. Companies want to know their view of the product, what features they look for, what kind of customization may be required, and what changes they may think of in future etc.

Thus it is important to get into research for every angle and dimension providers are dealing with. Only that can give the providers a clear picture of what customers want and look for.

There could be many different objectives for different questions and situations. All are meant to pinpoint customer expectations, company's response through its formulations, assessment of company's performance, customer satisfaction, demand level, and many others. The most common are the following.¹

- Identify dissatisfied customers.
- Discover exact customer requirements or expectations.
- Track company performance
- Assess individual performance
- Ascertain the actual gap
- Gauge effectiveness of changes and the recovery strategies
- Determine expectations for a new service or changed features
- Monitor changing expectations within the industry
- Project future expectations

The varied objectives dictate that companies launch research programs and not just isolated research studies once in a while.

You may also notice that these objectives are very similar to the ones established for tangible goods. There are, however, a couple of additional elements that play an important role toward fulfillment of services objectives. Performance in services is gauged at individual, branch, division level in addition to organization as a whole very carefully. This basically owes to factor of variability and demand variations. It is important to ensure the following:

- Processes must be documented to eliminate unwarranted variability. With the help of documentation performance must be tracked continually.
- Monitoring of performance must show the gap in terms of its causes, which could be:
 - Declining service standards
 - Variation in demand due to changing season
 - Escalation in expectations of customers

The above are the three major areas offering challenges of gap to providers. Findings in relation to these can reveal a host of causes and reasons for corrective action.

Criteria for effective research

According to experts, there has to be a program, which is a composite of different research studies conducted to come up with the most appropriate measurement strategy.² A good program should include

Both qualitative and quantitative research:

Qualitative research is directed toward defining problems and hence is exploratory and preliminary in nature. It makes use of direct customer contact through techniques like informal conversations, focus groups, critical incident research, and observation of transactions to lead the marketer into asking the right questions about the area of concern.

Quantitative research builds on the qualitative findings and gives marketers the empirical findings relating service attributes, customer attitudes and preferences, and extent of positive or negative feelings. It helps in testing a hypothesis that a service marketer may want to confirm.

The findings of the quantitative research give us leads into improvement of service delivery, quality of service, satisfaction level and also the overall design of the ongoing research. We can make broad inferences about satisfaction, delivery mechanism, importance of service attributes, and perception of value of service.

Quantitative research also gives managers insights into performance of the company as against competition. The results may lead the company into conducting more research and making a host of different strategic moves.

As examples of qualitative research, an insurance company should explore the importance of yearly premium value vs. efficient settlement of claims. A fast food set-up should explore through research the need for a drive-thru window in a particular area. Both facilitate defining a problem and provide the company with the decision to either working or not working on it.

As examples of quantitative research, after the two companies are done with defining the problem and taking the operational and marketing decision, they can get down to finding the level of satisfaction, customers' perception of attributes their services carry, and many other findings based on the quantitative data research offers them.

Both perceptions and expectations of customers

In general, research studies are limited to asking questions about perceptions of customers, which are their experiences as against their expectations. Keeping expectations as part of the research is vital, but the fact is they are generally missing from such studies to which experts object. In the absence of expectations, mere data analysis of perceptions may not be very meaningful unless compared against what they expected.

Good research design therefore should carry both the features. Again the problem occurs that researchers have a tendency to include expectations at the end of the study for drawing comparisons. There are experts who are apprehensive of this approach, for including expectations at that stage may result in customers mentioning

- high expectations if the experience was negative and
- low expectations when the experience was positive

As a counter argument, the detractors of this argument argue that expectations should be captured through focus groups in the form of a qualitative study preceding the quantitative one. That way, the company will always have the right comparisons to make. Expectations should be captured for various levels and compared against experiences to gauge the right level of gaps. We shall look into this phenomenon in the ensuing lectures.

Summary

In order for providers to be close to customers' expectations and minimize the gap, they must resort to marketing research as a continual, composite program. There are many areas of problems that sellers can rightly identify through research and not by counting on judgment.

We must understand the difference between qualitative and quantitative research. While we define problems and issues with the help of qualitative research, we apply quantitative techniques to ensure where we stand in terms of customer satisfaction and competitive offerings in addition to many other dimensions.

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2. Ibid (126-131)

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This lecture is a continuation of the previous one in terms of criteria for effective research. We shall look into the remaining criteria and also learn different research techniques that need to be applied in different situations services marketers face.

Criteria for effective research¹***Balance the cost of research with the value of information:***

This refers to a cost-benefit analysis. A good research design must enable a company to recover the costs incurred on research by way of paying the consultants, company staff's own time, and related expenditures and the information that it generates.

The objective should be to get information out of a research study that really helps the company to make better decisions about delivery mechanism, customer satisfaction, and customer retention.

Rationalizes the research sample objectively:

There are research studies that do not measure and are rather meant to build relationships with a select number of customers. Meetings with such customers, companies can determine customers' desire, their own strengths and weaknesses, and what can they do to overcome weaknesses.

They prepare plans accordingly and then after a specific period of time see if they have achieved the objective of getting maximum return on satisfaction of individual customers.

Measures priorities or importance:

Managers have a tendency to allocate resources to those dimensions of service that customers may not think are their priority. This takes us into the right positioning of the product and requires companies to undertake research from that particular standpoint. They must understand the motivation behind the purchase of the service and qualitatively study the causes of that motivation. Having done that, they must proceed with the decision of channeling resources in the right direction.

Occurs with appropriate frequency:

Research must become an integral part of the marketing effort by the company. The process should be carried out as a program repeated over time and not just one research episode. One episode will only give a snapshot of one particular moment of time.

It has to be an ongoing process whereby the company can assure it is moving forward and continues to enjoy the patronage of the market. The company can assure itself of any process improvement initiatives and confirm customers' acceptance of the same.

Lack of continual research may suddenly reveal that the company is falling behind with not many options to stage a timely recovery.

Includes measures of loyalty and behavioral intentions:

Research should also include the measures of loyalty and behavioral intentions in response to the consequences of quality and satisfaction. Behavioral intentions are of two kinds:

- Positive
- Negative

Positive will result in customers talking about the service with others, do more business, spend with the company, and willing to pay premium. Negative behavioral intentions will result in negative referrals and switching over to competition.

Elements in effective research

Equipped with the knowledge of the right criteria we now turn to knowing what are the elements or types of research. Depending on the nature of the service and customer requirements, different kinds of studies are undertaken. If at one point we are trying to qualitatively look into what drives customers to order food at home, we at another may be carrying out research to quantitatively know what satisfies customers about the food quality or the delivery mechanism!

What takes significance is the fact that research should be centered on the customer as well as employees, who must be the focal points of research. It is for the simple reason that we try to determine what are the areas and the points that need addressing in order to satisfy customers. Therefore, many different kinds of research studies will make their applications important with *focus* not only on *customers*, but also on *people* who provide services.²

Complaint Solicitation: The essence of this study is to seek complaints as the basis of data collection and subsequent research. Companies do not wait for complaints to come; they seek them through the front line providers and any other stakeholders that are involved in distribution and selling of the service.

Through generation of information, companies identify dissatisfied customers and hence the system failure points in order to pay attention to correction and recovery. Such companies are proactive and concerned about what may have gone wrong with the service delivery. By coming up with relevant questions that enable them get answers to those aspects of service that relate dissatisfaction, they initiate the study.

An argument against this study method is that not all dissatisfied customers complain to the company. There are higher chances of their talking with other customers and switching over to competition. To counter this possibility, services managers have to manage a customer-mix within the same segment proactively. The repository of data that builds over time enables companies to resolve customers' problems and make corrections to the failure points. Along with complaints, customers do also talk about positive things that become the basis of reinforcing good delivery points.

Critical Incident Studies: It is an authentic way of getting into direct touch with customers and having them tell you stories verbatim about their satisfying and dissatisfying encounters.

Because the themes of CIT relate directly with the dimensions of quality, (the five dimensions are employee focused and demand a certain type of behavior from them) these center directly on employees to find out complaints and system failure points; these also seek to reveal the reasons for success and system success points. The studies therefore achieve objectives of identifying both satisfied and dissatisfied customers and also the causes of failures and reasons for success.

Such studies reveal the best practices as described by customers, and the practices in turn become the benchmark for further standard improvements. The questions basically center on individual encounters and the real benefit is about identifying customers' opinions about every single encounter.

In plain words, these studies let companies identify the behavioral dimensions of their employees' at the encounter level while these also identify customers' requirements and opinions.

Requirements Research: This research reveals the benefits and attributes customers look for in a service. It, therefore, is of elementary nature and warrants qualitative research through focus groups. The qualitative effort identifies the requirements and lays the ground for quantitative research in order to have quantified findings about the benefits and attributes.

The significance of this study therefore lies in it taking precedence over quantitative research. The conductor of the research asks in a structured way questions about the “what”, “why”, and “how” factors.

- “What” evokes the fundamental requirement, meaning what it is
- “Why” evokes the underlying need and the benefit, meaning why it exists
- “How” evokes the service features, meaning the ones that customers look for

SERVQUAL: An effective tool to measure customers' perception against expectations, the name basically is a contraction of “service” and “quality”. This tool started as qualitative research procedures and then evolved into well-structured quantitative techniques to measure perceptions against five dimensions of quality. It is applied across a broad spectrum of industries globally and therefore has a universal acceptance.³

The questionnaire is divided into five parts signifying the five dimensions. The 5 parts consist of 21 questions. The division is like the following.

- Reliability (dependability, accuracy) 5 questions
- Responsiveness (promptness, helpfulness) 3 questions
- Assurance (competence, courtesy, credibility, security) 4 questions
- Empathy (easy access, customer understanding) 4 questions
- Tangibility (appearance of physical evidence) 5 questions

A standard format of the questionnaire is reproduced from the text book as appendix for your understanding. You will notice the 21 statements are the statements of attributes and the customers are asked to rate the attributes on a scale of 1 to 7 and also provide two different ratings of their

- expectations of a service they will get from excellent companies, and
- experience of the service they have gotten from the subject company

The difference between the two scores, meaning their expectations and perceptions, signifies the quantified measure of service quality giving the providers some analytical insight into their operations. The two ratings can be developed by using the same format of questionnaire as “Format A” and “Format B”. The comparison of ratings let the companies enjoy the following benefits:

1. This tells the company whether it exceeded customers' expectations or not, for basically this is the gap score.
2. It also can include information about demographics of the respondents and then draw relationships between their demographic profile and the importance they give to different dimensions. This helps the companies in clearly understanding customer segmentation.
3. It lets companies know which dimension is their strength and which one its weakness, meaning a clear picture of internal service quality.

4. It can then let you come up with corrections and strategies that are desired either to correct the situation or further reinforce it.
5. It offers comparison of your performance against other competitors.

Expectations statements as part of SERVQUAL - Company XYZ

Format A

Reliability

1. When XYZ promises to do something by a certain time, it does so.
2. When you have a problem, X YZ shows a sincere interest in solving it.
3. XYZ performs the service right the first time.
4. XYZ provides its service at the time it promises to do so.
5. XYZ keeps customers informed about when services will be performed.

D	A
1	2
2	3
3	4
4	5
5	6
6	7

Responsiveness

1. Employees in XYZ give you prompt service.
2. Employees in XYZ are always willing to help.
3. Employees in XYZ are never too busy to respond to your request.

1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7

Assurance

1. The behavior of employees in XYZ instills confidence in you.
2. You feel safe in your transactions with XYZ.
3. Employees in XYZ are consistently courteous with you.
4. Employees in X YZ have the knowledge to answer your questions.

1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7

Empathy

1. XYZ gives you individual attention.
2. XYZ has employees who give you individual attention.
3. XYZ has your best interests at heart.
4. Employees of X YZ understand your specific needs.

1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7

Tangibility

1. XYZ has modern-looking equipment.
2. XYZ's physical facilities are visually appealing.
3. XYZ's employees appear neat.
4. Materials associated with service (pamphlets etc) are visually appealing at XYZ.
5. XYZ has convenient business hours.

1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7

D is "Disagree" and A is Agree

Perceptions statements as part of SERVQUAL - Company XYZ

Format B

Reliability

1. When XYZ promises to do something by a certain time, it does so.
2. When you have a problem, XYZ shows a sincere interest in solving it.
3. XYZ performs the service right the first time.
4. XYZ provides its service at the time it promises to do so.
5. XYZ keeps customers informed about when services will be performed.

D							A
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

Responsiveness

1. Employees in XYZ give you prompt service.
2. Employees in XYZ are always willing to help.
3. Employees in XYZ are never too busy to respond to your request.

1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7

Assurance

1. The behavior of employees in XYZ instills confidence in you.
2. You feel safe in your transactions with XYZ.
3. Employees in XYZ are consistently courteous with you.
4. Employees in XYZ have the knowledge to answer your questions.

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Empathy

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1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7
1	2	3	4	5	6	7

D is "Disagree" and A is Agree

6. You can initiate further measurement studies to improve upon your service features and delivery.

The beauty of this survey is that you can adapt it according to the specifics of your service's attributes.

Summary

We have learned the effective criteria for research in order to come up with elements of research appropriate for our service products. The objective is to make sure that we can make the research methods and the program as effective as possible in knowing customers' experiences for us to take the corrective actions.

Different elements or methods of research that we have started learning are the ones from which we can choose the right ones for our products. Some deal with qualitative research, while others are for quantitative applications.

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1. Valarie A. Zeithaml and Mary Jo Bitner, "Services Marketing – Integrating Customer Focus Across The Firm", 3rd edition; McGraw Hill (126-131)
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SERVICES MARKETING**Introduction**

We continue with research elements and conclude those to know how we can use them to the benefit of the firm. We also will know if we can keep an authentic record of our performances through research, because, we, as providers, can add value to our operations through the value of research.

Elements in effective research¹

Post-transaction Surveys or Trailer Calls: These can be centered on employees, the process, and the customers. Quite popular across many industries these offer a good opportunity to capture customers' reactions and opinions immediately upon culmination of the encounter. These are meant to

- Record individual encounters
- Identify satisfied and dissatisfied customers
- Relate satisfaction and performance with the contact personnel
- Immediate feedback on performance
- Use feedback on process improvement

These surveys are considered more effective than complaint solicitation. They are conducted on a continuous basis and are important because they reveal future behavior and intentions of customers. The collection of encounters provides the company with an accumulated wealth of interactions and hence the basis for differentiating between good and not-so-good employees, they reveal employees behavior as well. Owing to their nature, they provide companies leads into "critical incident technique (CIT), which becomes the basis of creating new benchmarks.

Service Expectation Meetings and Reviews: A tool to substantiate relationship marketing, this has its efficacy in B-to-B transactions. It could be highly effective, for it is carried out after a specified period of time on a customer with whom the team has been in contact on a frequent basis. Key account people note down 8-10 requirements with priority as expressed by customers. They also discuss particular aspects customers want satisfaction on, and prioritize the importance of those.

Key account people then put their plans together, and bring them to life. The performance is gauged after a specific period to determine which aspects stand met. Plans are re-hashed and the process goes on continually to make sure that the clients' requirements are met.

Process Checkpoint Evaluation: These evaluations are meant for situations in which the result of the study comes out after a long period, e.g. consultancies, architecture, and engineering projects. The provider builds into the process automatic feedback options to stay on top of things. The technique defines different stages of the project, presents the findings to the customer and gets feedback to ensure the provider is on track.

Market-Oriented Ethnography: This type of research owes basically to the variations in cultures of different markets; hence, it has an international angle to it. For the reason that many international companies work across so many different cultures, they have to be sensitive to the socio-cultural and -religious ways that influence that particular culture.

Ethnicity is a condition of belonging to a particular ethnic group. An ethnic group is a set of people with a distinct culture within an overall cultural and social system. Ethnicity, therefore, can be defined as differentiation of sets of people having variable religious, socio-cultural, ancestral, and even physical characteristics.

Ethnography basically is a scientific study of human races; it seeks to reveal and pinpoint those factors that have an influence on the culture of different sets of people who could be viewed across ethnic lines, or one particular set that could be analyzed from one particular ethnic perspective.

Our own society has such an exciting differentiation of ethnic groups within different geographic areas that it may dictate carrying out research in ways different from the ones we have learnt so far. The need for such a research arises when mostly people are not either willing to or capable of answering the structured items on the questionnaire.

In that kind of a situation, companies have to count on “informants”. Informants provide answers to the questions and therefore there is a need for choosing the “informants” with a great deal of care.

Second method of carrying out research is by observing at the point of consumption as to how people behave when they are out to get the service. For, that is the only way to assess what people might expect.

The answer to why “informants” or “observers” lies in cultural inhibitions that may keep customers/respondents from having direct contact during research and hence coming straight on many aspects of research. It could also be lack of education!! Take the example of an organization that may like to launch basic health facilities in the rural areas of the country. Questions on maternity can only be answered by informants or their answers sought through observations.

Mystery Shopping: This is a research method carried out in a mysterious way to assess your own people’s performance. There are companies that specialize in carrying out research by way of evoking the right answers from your people.

In this method, the researchers pose as customers and ask questions in a way that proper analysis is carried out. Providers’ people know of the mystery shoppers but what they do not know is who those shoppers are and when will they come! The knowledge of this very fact keeps them on their toes and their performance remains consistent on delivery standards.

Mystery shopping is not just about secretly watching your people; it also becomes the basis of rewards when companies find out good performance of their people.

Customer Panels: Companies get into research by having representatives from the overall segments they have designed the service for. A qualitative form of research, it brings in insights into the delivery of service directly from the users. Airlines and entertainment are among those industries that make use of this research.

Lost Customer research: A very useful tool, it reveals the causes that lead to customers deserting the company. Customers are asked very open-ended questions and requested to be open and direct in expressing the reasons for their defections.

While it may offer the company an opportunity to bring some of the deserters back, it certainly lays the foundation for corrections that may keep future defections from taking place. Post-transaction studies with authentic results may lead providers into having lost customer research.

Future Expectations Research: There are three types of this research

- Features Research: It is meant to scan the environment and assess the kind of changes and improvements taking place
- Lead User research: This is conducted on lead users, who are opinion leaders to gauge their reactions for formation of the basis of future expectations of customers.

- Synectics Approach: It defines lead users more broadly.

As we have seen the objective of all kinds of surveys and studies is to objectively assess two kinds of measures.²

- Firm's performance
- Measure of customer attitudes and opinions

Firm's performance can be assessed on the basis of routine procedures, data compilation, statistical analyses and variances. Keeping a record of complaints is also essential as an internal measure. In the absence of such vital statistics, a company may not be able to go ahead with research.

Airlines will keep a record of departures and arrivals, number of baggage claims, and other complaints about reservations and handling.

A distribution company will keep record of stock-ins, stock-outs, fill-rate, re-order points and overall service measurement of on-time delivery.

It is obvious that in both the above cases, no research can be conducted without having relevant internal records. If research is conducted on the basis of internal measures, then companies can compare their performance with that of the overall industry.

Customer measures are customer focused and customer generated. Companies gain valuable information about customers' attitudes hence pinpointing their own strengths and weaknesses, in turn having the opportunity to strategize accordingly.

The value of research

There are certain prerequisites to conducting marketing research and then using its results. These are mentioned below.

Research should have a purpose: It is no good to carry out research without defining a purpose. Once defined, the purpose and its results can be used effectively for good decision making. The purpose must result in driving a change and making an improvement.

Research should be timely, precise, and credible: The results of research let companies commit themselves to big investments and therefore there should be an impressive level of clarity in its objectives.

Research should be communicated to the concerned: The results of research should be effectively communicated to those within the organization for whom those are intended. An effort then should be made to ensure that results of research lead to improvements.

Research must take the shyness out: The results must not make employees feel inhibited working with those only because they cannot understand the findings through lengthy printouts and reports.

It is the duty of the people at the top to educate all, especially the front line contact personnel, about the results through forming special teams for this purpose. The importance of internal and interactive marketing gets emphasized here.

People who need to behave in a certain way during encounters must be educated first about those certain ways. In other words, they have to be sold the concept before they can sell the same to customers. This emphasizes the "who", "why", and "how" sides of the training strategy. It implies who need it, why they need it, and how they are going to use the information generated through research.

Summary

All the methods of research are meant to make the best use of them in relation to the situation a company is in. Marketing managers are the best people to decide what research is needed to achieve the ultimate objective of customer satisfaction and what dimensions of quality are the ones that are the most sensitive in their particular set up.

Research should be carried out as a composite program destined for a continual undertaking. Any lapse on it can result in companies losing track of their strategic direction and losing the customer focus. By the time companies find out what went wrong, it may be too late in the day. Therefore, research that is purposeful, precise, timely, and concise must be undertaken on a regular basis and its results shared with all those employees whose actions are directly affected by the research findings.

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SERVICES MARKETING**Introduction**

Sharing research results with all those people (employees) for whom research is intended is a major responsibility of management. Explaining the research findings through graphical presentations is a powerful way to explain the results of research.¹ This lecture is about such presentations that make the results easily understood and followed.

Performance, gap scores, and competition charts

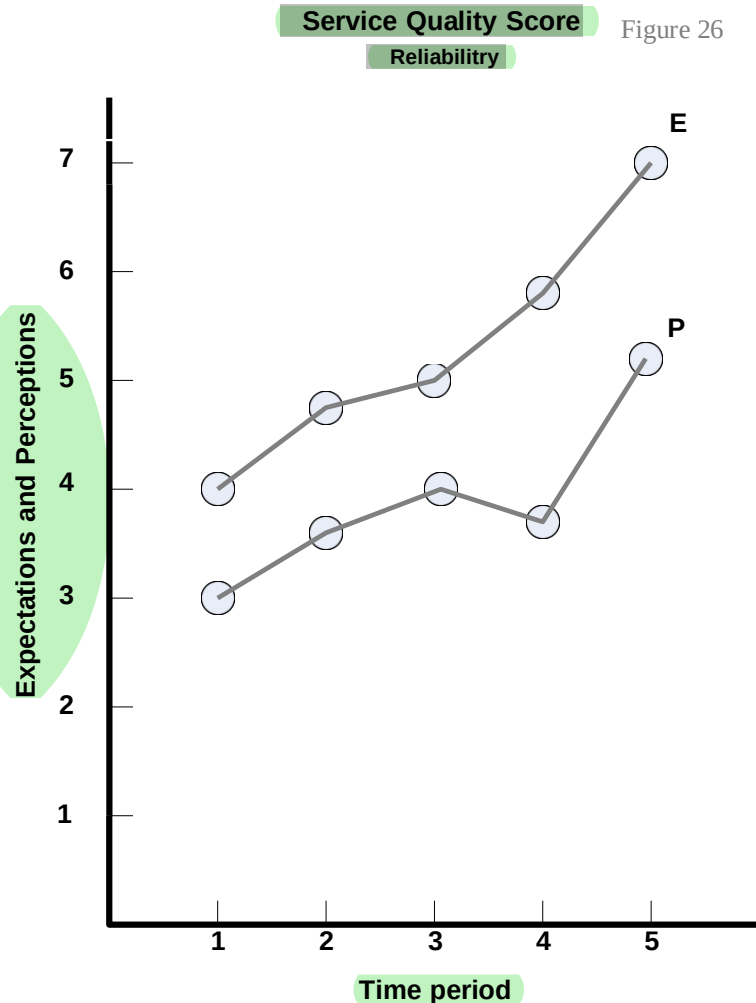
The accompanying figure 26 is a reflection of research that exhibits expectations and perceptions of customer over an extended period of 5 occasions. As is clear perceptions (P) sit lower than expectations (E), thereby exhibiting a quality shortfall.

The score refers to just one dimension of reliability; other dimensions could also be represented by similar figures making it easier and interesting for people to interpret the results of research.

Competitors' performance could also be tracked on service quality measurement and plotted graphically.

Zone of Tolerance Charts

Another interesting presentation is that of zone of tolerance. This is a more comprehensive presentation than the previous one. You can plot the quantitative findings about the adequate level of service and the desirable level of service to show how big the gap is. Interpretation can be drawn in relation to a narrow zone as against that of a larger zone.



Valarie A. Zeithaml and Mary J. Bitner, "Services Marketing – Integrating Customer Focus Across The Firm", 3rd edition, McGraw Hill (147)

The interesting aspect of this chart is that all five dimensions of quality can be drawn as zones of tolerance for your own company as well as for competition to establish performance comparisons. It takes us back to the SERVQUAL for sourcing the scores of perceptions. A hypothetical presentation is plotted on figure 27. Please note that this covers all **five dimensions** on the attributes assigned to each dimension as follows:

Reliability: It checks to what extent the service is “on time”.

Responsiveness: It assesses the “willingness of the staff to help their customers”.

Assurance: It reveals how much customers feel being in “safe hands”.

Empathy: It exposes the degree of willingness to give “individual attention”.

Tangibles: It shows the extent of physical evidence’s “modernity”.

The next move is to refer to the format “B” of the SERVQUAL to pick scores captured therein as the adequate and desired levels of service. These scores are a reflection of the same attributes mentioned above. The only point here is that it is preferable to capture customer’s minimum and desired levels of expectations before dealing with format “A” of SERVQUAL that reveals perceptions. Figure 28 is a presentation of one attribute of being “on time” relating *reliability*. Similar formats have to be worked on to arrive at other attributes in relation to the remaining dimensions of quality of *responsiveness*, *assurance*, *empathy*, and *tangibles*.

Service Quality Perceptions
relative to
Zones of Tolerance on Dimensions

Figure 27

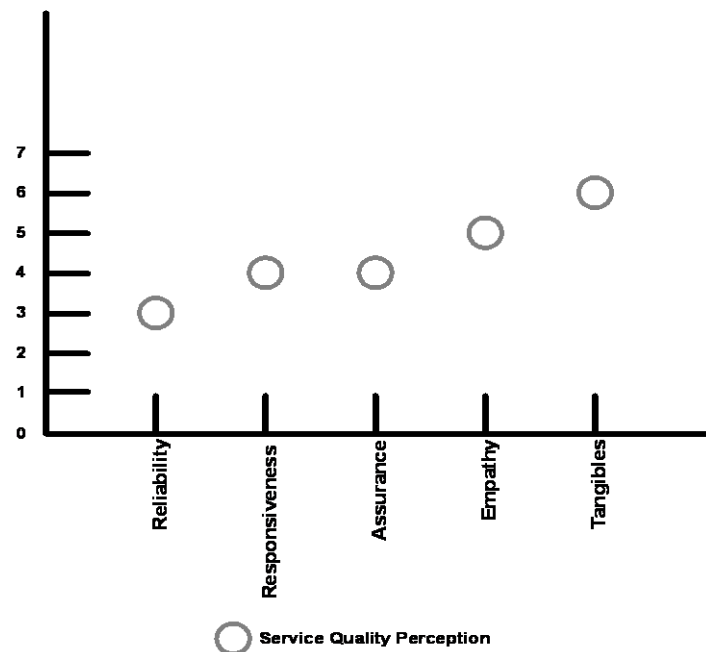
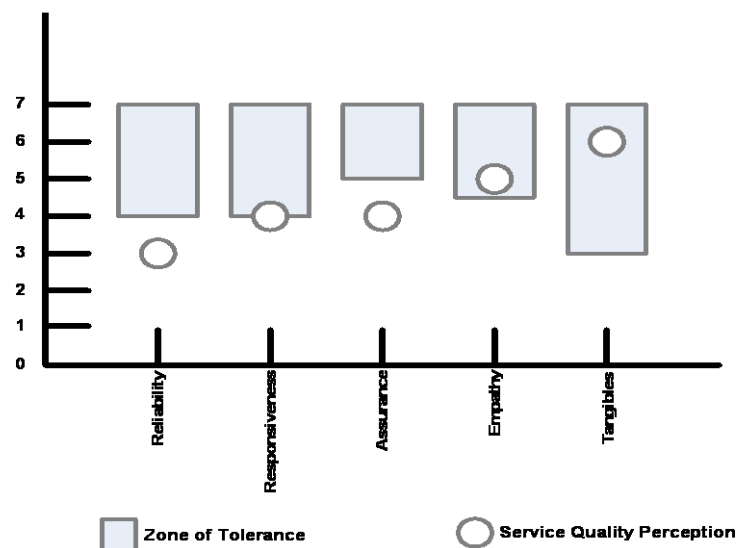
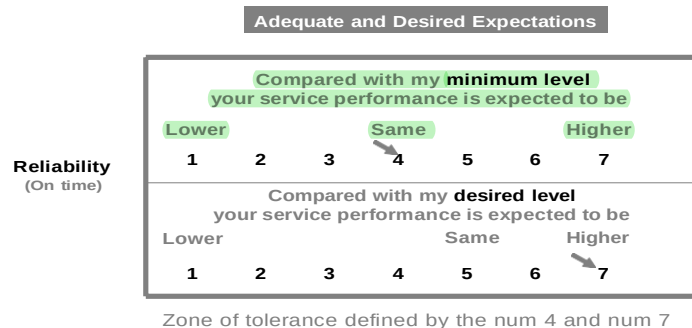


Figure 28



The drawing of the scores on all dimensions of quality will represent the minimum and the desired levels of expectations, thus forming the zones of tolerance. Do not forget to go back to figure 27 and do the plotting there to come up with the final graphical presentation as it looks in the accompanying figure 29.

The positions of the service quality perceptions show that, barring tangibles, customer experience has been either lower than the minimum level or close to it. This is an outright reflection of customer dissatisfaction.

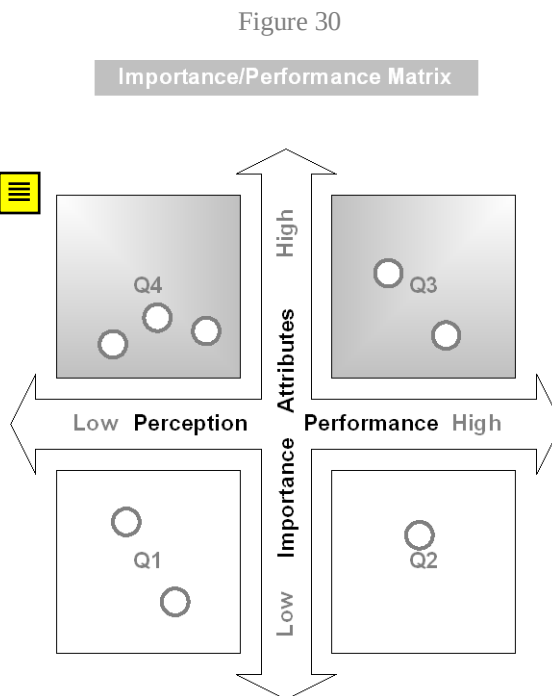
Another meaningful presentation can be drawn from SERQUAL's format "A" about customer perceptions of competition as given by customers. On all five dimensions, we can draw comparisons on how far we are from competition both in positive and negative terms.

Importance/performance Matrices

The research findings of customers' priorities or importance they attach to different features of the service can also be tracked graphically. We can then draw relationships between that importance and attributes.

This is one of the most important tools researchers and managers have at their disposal to analyze the correct relationship between the two and then strategize accurately.

The horizontal axis of figure 30 carries performance of the company as perceived/experienced by customers, while the vertical axis represents the importance customers attach to various attributes the company has subjected to research. The attributes essentially are the ingredients of product features, meaning features subdivided into different parts. For example, a list of attributes of two different entities in the shape of a hospital and a fast food restaurant are mentioned for your understanding as figure 31.



Once a provider has pinpointed the attributes to be studied from customers' importance standpoint, the provider goes ahead with the research accordingly. As you can see, the attributes mentioned in the example represent a cross-section of the five dimensions of quality and are supposed to be plotted on figure 30. You will plot customer perceptions on X-axis and assign corresponding importance in numerical number to that attribute on the Y-axis, thus coming up with a relationship between importance and perception.

Figure 31

Attributes – Hospital	Attributes – Fast Food
• Quality of equipment	• Quality of food
• Availability of services	• Variety of food – menu diversity
• Diagnostics and tests etc.	• Service delivery
• Quality of emergency room	• Promptness of personnel
• Friendliness of personnel	• Quality of equipment

• Competence of personnel	• Atmosphere and décor
• Appearance of personnel	• Quickness of home delivery
• Atmosphere and décor	• Drive-thru facility
• Cleanliness	

As is obvious, plotting shows itself on four quadrants of figure 30. The placement is a function of customers' perception and importance they attach to various attributes picked from figure 31.

It is also clear that attributes falling in Q1 are neither very important, nor they reflect high performance. Q2 is a reflection of those attributes that are performed very well in the eyes of customers, but they do not attach a corresponding level of importance to them. However, attributes falling in Q3 are the highest in both perception and importance, warranting company's highest level of operational and marketing attention. Q4 is a reflection of attributes that are very important for customers, but the company has not been able to perform well on those. The company, therefore, has to either improve its operational efficiency or deploy more resources to those attributes.

There is no hard and fast rule about which attributes to pick; it is the clarity of understanding of managers about which ones should interest the customers and impact the company most and then develop the relationship between how they should influence managers' planning about deployment of resources.

Summary

To ensure that results of research are fully understood by those who intend using them, managers have to devise easy ways to develop understanding on part of such employees. Just passing on voluminous reports and printouts to the employees may confuse them and make them reluctant to using hefty volumes.

Managers should develop summarized forms of reports and the best way of doing so is to come up with graphical presentations. Such presentations arouse a lot of interest on part of the recipients. Explaining in detail where the company stands in terms of customer perceptions, competition, and the need to improve weak dimensions of quality are some of the more important objectives managers have. Senior managers must make every effort to make that happen.

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SERVICES MARKETING**Introduction**

The lecture continues with types of research that enable providers to rightly assess their capabilities to come up to their customers' expectations.

Research for Upward Communication

Another important element of strategic handling of the gap 1 is research for upward communication. This is a type of communication which is generated for understanding of customers by top management, who in larger companies are constrained to have a first-hand feel of encounters and interactions with customers. It is extremely vital for the top management to have a firsthand feel of what goes on during encounters – phone, remote, or face-to-face.

The efforts toward upward communication, along with marketing research, converge at a point from where top management can more effectively work for the achievement of company goals. With this objective good companies institute practices that can bring management closer to customers. In large corporations, this has become essential for the reason that it is not possible like the way managers stay in touch with their customers in small set-ups. There are many techniques employed to achieve this objective, of which the following are the popular ones.¹

Executives visit customers: Executives visit their customers with the objective to understand customer requirements and convey directly their willingness and commitment to fulfilling those.

Executive Listening: Many companies have made it a standard practice to have toll-free numbers for customers' facilitation and in the process they seek information and complaints. Mobile telephone companies and banking corporations glean a lot of useful info out of such calls.

Communication with Intermediate and Internal Customers: Understanding requirements of intermediate customers, who could be agents, dealers, distributors, and franchises, is important. Meeting their requirements of service enables them to impart the right service to end customers. Similarly, providing the right service to internal customers by way of training, coaching, and motivating programs is important for them to offer the right service to the end users.

Figure 32



The service to internal employees includes flexibility on working hours and rewards etc., but, what is important is the flow of information that comes from the frontline providers; it could be invaluable for the top management to move in the right strategic direction. Actually, communication is also research and this research combined with the customer-focused research provides the company with a wealth of information.

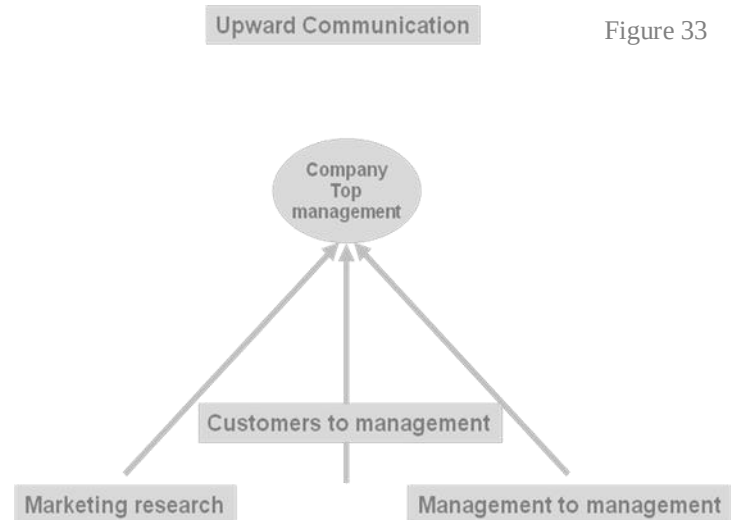


Figure 33

Three different directions that are instrumental toward provision of upward communication are graphically illustrated as figure 33.

Another factor that motivates employees to communicate directly and freely with the top management depends on top management's ability to listen to and implement employees' suggestions.

If employees see their suggestions implemented effectively they become more sensitive to customers' needs and requirements and deliver service in a more effective way raising their own benchmarks. Keeping the management informed that really wants to stay informed results in an

organization that is a cohesive whole geared toward satisfying customers under any circumstances. The concept is graphically illustrated as figure 34.

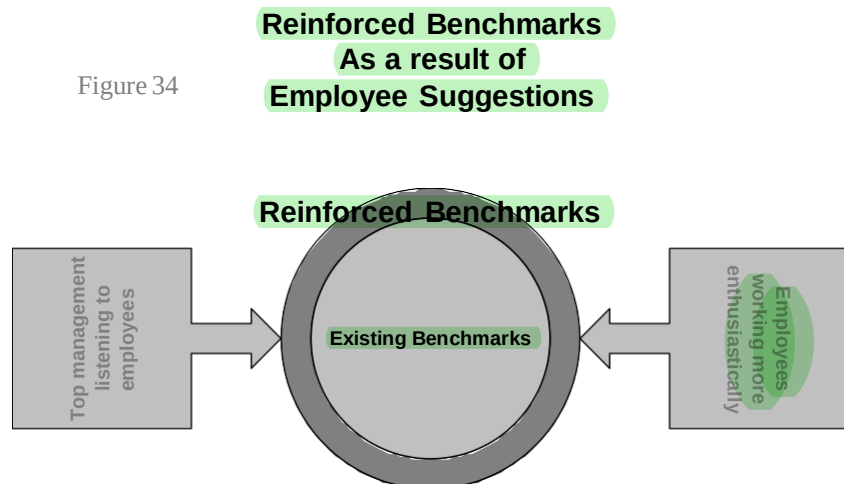


Figure 34

Relationship Marketing

“Relationship marketing” is a step further than the “transactional marketing”. Managers have to be a little far-sighted in terms of relationships. In other words, the conclusion of the commercial deal that marks transactional marketing has to be further grown and nurtured.

Bringing in new customers is not against any marketing and selling philosophy. But, it is expensive. New customers are always attracted at a great cost, by offering price attractions in terms of promotions, discounts, and advertising.

Relationships, if kept by continually offering quality and satisfaction, almost eliminate those costs and result in overall economy for the company. It therefore is a paradigm shift that focuses on relationship and retention, which is a step further from acquisition and transaction.

A strategic orientation, relationship marketing works both for the providers and the customers. Just like it economizes things for providers, it offers good value to customers who want to stick with one supplier instead of looking for new ones every now and then in search of value. Owing to the new orientation, it demands the following three elements.²

- A new mind set (retention vs. acquisition)
- A different organizational culture, and
- A better reward system

Many organizations offer incentives for bringing in new customers, but pay little attention to the efforts of staff to keep customers. This thinking may not help organizations implement the change of philosophy.

Goals of Relationship Marketing: The primary goal of relationship marketing is to build a base of loyal and committed customers, who are more profitable for the organization. To achieve this goal, companies focus on³

- Attracting customers
- Retaining customers, and
- Enhancement of relationships

Once the customers are attracted to the company, they would like to stay back with the company, if they are offered quality consistently. Pull from the competition in such a situation is not effective. Loyal customers become a source of growth potential, for they automatically attract new customers, who again have the potential to become committed customers. This occurrence owes to enhanced relationships that result in better market share and profitability.

Benefits for Customers and Firms: Both customers and firms stand to gain in this relationship. Customers basically like to stay loyal to companies that offer them better value. Value is a trade-off between what customers “give” and what they “get”. Give is the monetary side, while get is a function of quality, satisfaction, and other benefits. When they think what they are getting outweighs what they are giving, they tend to stay and nurture the relationship.

Summary

Research for upward communication is meant to keep top management abreast of company-customer interaction. Information passed on to the management plays a strategic role toward knowing what is happening, especially in large organizations, in which it is difficult to keep track of the quality of service due to sheer size and spread out functions. There are three different ways to generate such information – marketing research, customer to management, and management to management. All have their own efficacy and should be employed at the same time working simultaneously. While talking and listening to customers is helpful, suggestions from lower management and the frontline providers have their own significance.

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1. Valarie A. Zeithaml and Mary Jo Bitner, “Services Marketing – Integrating Customer Focus Across The Firm”, 3rd edition; McGraw Hill (150-153)
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3. Ibid (157-158)

SERVICES MARKETING**Introduction**

The lecture continues with the benefits of relationship marketing both for the customer and the firm.¹

Benefits of relationship marketing for customers and firms**For customers**

Some of the benefits are explained in detail hereunder:

- Confidence Benefits
- Social Benefits
- Special Treatment benefits

Confidence benefits are the feelings of trust customers have. They realize they are in safe hands; the level of anxiety remains low while comfort goes higher. Owing to this confidence, they don't want to invest time into looking for other vendors. They know new vendors will take time in understanding them and their needs, which is time taking and tedious.

Social benefits let the customers enjoy a social relationship with their business partners, which bring in more loyalty to the relationship. In certain situations, providers become part of the social support system of the customers. Take the example of event management, school systems, and medical services in which suppliers have a relationship with families and not just one customer.

The flip side of this relationship is that companies tend to lose business when a good employee with relationships leaves them for competition. Employees having good relationship with customers always offer them special treatment. Special treatment benefits could range from price to special offers and special solutions based on the intensity of the relationship. This works both ways; the more business customers bring to the firms, the more intense is the relationship and hence more special benefits.

For organizations

Lower costs: Committed customers do more business with firms and owing to repeat purchases become the source of larger revenues. In addition to increased revenues, the marketing and administrative costs related to retained customers also go lower. The costs pertain to advertising, discounts, and promotional offers. Lower costs tend to elevate margins.

Free advertising: Owing to loyalty with the service brand, positive word-of-mouth generates which is a great benefit accrued over time by the organizations. Services rich in credence are:

- referral-dependent and
- endorsement-dependent

Such referrals and endorsements come to the companies automatically if it has loyal customers.

Retained staff: Satisfied customers make staff stick to the company. Staff gets confidence by dealing with such customers. Staff understands their customers' requirements even better and the two complement each other in ways more than one.

Companies focus on customers' lifetime contribution to their businesses. They work out the numbers by employing sophisticated accounting techniques. The contributions are made by way of looking into customers

- Buying for the lifetime.
- Giving referrals and attracting more customers and hence the resultant additional revenue generated by them.
- Keeping the costs of bringing in new customers low.

According to one research, by just retaining 5% more customers the increase in profitability is in the range of 35% to 95%.

Foundations of relationship building

There are certain prerequisites to developing good relationships that are not just based on selling personnel's socializing skills. The following explains what it takes to doing the needful.²

- Quality service of the core product,
- segmentation, and
- monitoring of relationships

Quality as expected by customers is the basic denominator of the relationship. As we have learnt that satisfaction is a function of quality, no relationship can be built in the absence of good quality. A referral to the quality-satisfaction relationship and the need to develop loyal customers will help us grasp and appreciate the importance of quality as the prime foundation for developing relationships.

Segmentation: We know from our fundamental marketing knowledge that segments can be viewed as groups of people having similar wants and needs and yet not exhibiting two different buyers having very similar needs. This holds true particularly in services. Experts suggest that marketers develop flexible products and offer standard and optional packages to address to different need. Figure 35 There are two broad categories of services, one with just *one consistent appeal* for the case of power, gas, and phone etc. The only consideration for differentiating the service is by way of the quantity consumed and purchased by customers.

The other broad category is the one that dictates *customization*, for every customer having their specific sets of needs and requirements. In other words, there are two extremes – “*segment of all*” and the other as “*segment of one*”.

Understanding segmentation

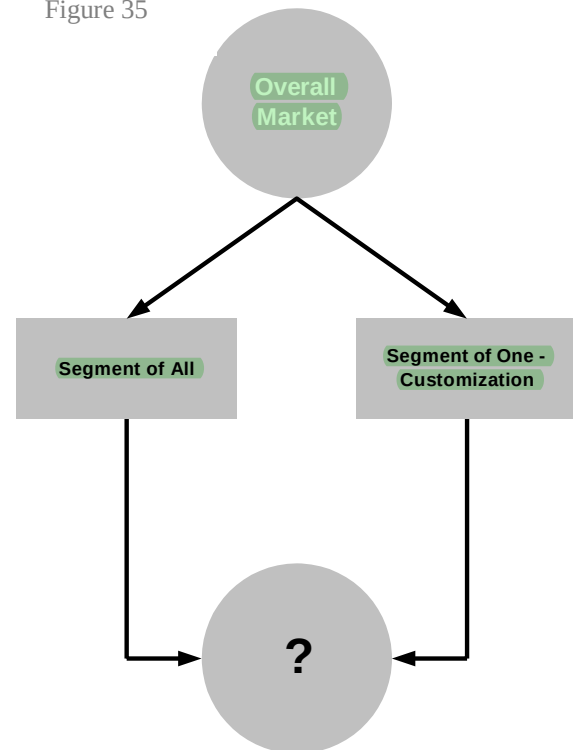
There are different steps that providers must take into understanding the segments.³

Identify the bases of segmentation: The identification is done on demographic, geographic, psychographic, and behavioral bases.

Demographic factors relate age, sex, income group, occupation, and religion; geographic factors are about a geographical area divided into sub-areas, further divided into sections etc; psychographic

Segmentation Challenges and Opportunities

Figure 35



factors are social class, life style, or personality characteristics; while behavioral factors are divisions on customers' opinions, attitudes, and responses on the basis of benefits, occasions, usage rate, loyalty and attitude etc.

Requirements for segmentation: there are certain requirements that bring authenticity into segmentation as we look into those through the abovementioned bases. These are measurability, accessibility, sustainability, and actionability.

Measurability dictates that a segment must be measurable by the size and purchasing power of customers; accessibility requires that the segment must be accessible; sustainability necessitates that the segment must offer good prospects for sustainability and hence profitability; while actionability involves offering opportunities to design good compatible programs for attracting and serving the customers.

Criteria for evaluating segments: In broad terms, this calls for determining the size and attractiveness of the segment in line with company's objectives. The three criteria are:

Segment size and growth: This basically calls for determining the size of the segment and its rate of growth to establish segment's future shape and form.

Structural attractiveness: This clarifies that the segment is not over-crowded by suppliers, meaning the number of competitors. This also ensures the power of buyers and that of sellers.

Company objectives and resources: According to this criterion, the segment should be compatible with objectives and the availability of resources. Getting into segments that are attractive but not compatible with the resources at company's disposal is something this criterion restricts.

If the providers do not find too many differences, then they may not have a great chance to offer variances and, hence, customized benefits. Providers' smartness lies in identifying such variances to the benefit of the organization and the customer. The real benefits of segmentation, therefore, lie in revealing various segments.

Develop measures of segment attractiveness: An extension of the previous step, the providers must be able to evaluate the true level of purchasing power of the segment to see if the investment is worth the marketing effort.

Providers must see the size of the segments in relation to their growth potential and the possibility of new entrants etc. Existing competitors with their strengths and weaknesses should be studied and seen where relationship building is more effective.

A good understanding on that front enables the providers to commit resources in terms of investments to the right segments and then develop relationships.

Select the target segment: Based on the attractiveness and market realities, link the right segment with company's resource capabilities.

Ensure that the target segments are compatible: This refers to provider's capability of keeping identical segments together, away from those that may have different needs and are subject to a different price. A hotel offering similar discounts to certain groups of customers is dealing with one identical segment. The same hotel dealing with business customers with pre-established contract pricing is dealing with another segment. The two segments in such a scenario are not compatible.

The difference in price may occur due to varying timeframes of customer buying. Customers buying in lean period and paying less should not interact with those who bought the same service during peak period. Such an interaction can be termed as incompatible.

Segment of one – an interesting conclusion

It is interesting to note that both strategic directions of customization and segmentation lead toward the segment of one. Segmentation is a means to achieving customization. Even generic services are customized, because they consider the whole segment as one individual. The question raised in figure 35 rests well answered through an understanding of segmentation as a means to customization. The graphical presentation of this answer is given in the next lecture notes as figure 36.

Summary

In order to build fruitful relationships with customers, providers must appreciate the three fundamental factors of quality, segmentation, and monitoring of relationships. The factors learnt so far are the former two. Segmentation has to be understood in terms of its bases and criteria for evaluation to come up with the right segments compatible with the business we are in. Compatibility is a function of our capabilities and competencies to profitably operate within the segments that we choose for ourselves. Once chosen right, we can develop and nurture the required relationships.

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SERVICE MARKETING

Introduction

Careful segmentation is done for the purpose of getting maximum leverage out of the concept of segmentation to the benefit of the company as well as the customer. The company benefits from offering services with varying features as per customers expectations and customers having the benefit of having a supplier that fulfills their needs. Another dimension of segmentation is managers' efforts to divide a bigger segment into smaller ones toward customization for the benefits that were discussed before.

Owing to the variability in services, variations and heterogeneity can be both “a curse and a blessing”. This refers to both difficulties and opportunities. Heterogeneity therefore becomes an attractive basis of customization and, if pursued purposefully, can bring attractive returns to the company.

Monitoring relationships

It is with this very purpose of monitoring that customers should be surveyed with the help of marketing research to find out their preferences, their levels of satisfaction, the value they perceive getting from the company. Comparisons should be drawn with competitors.

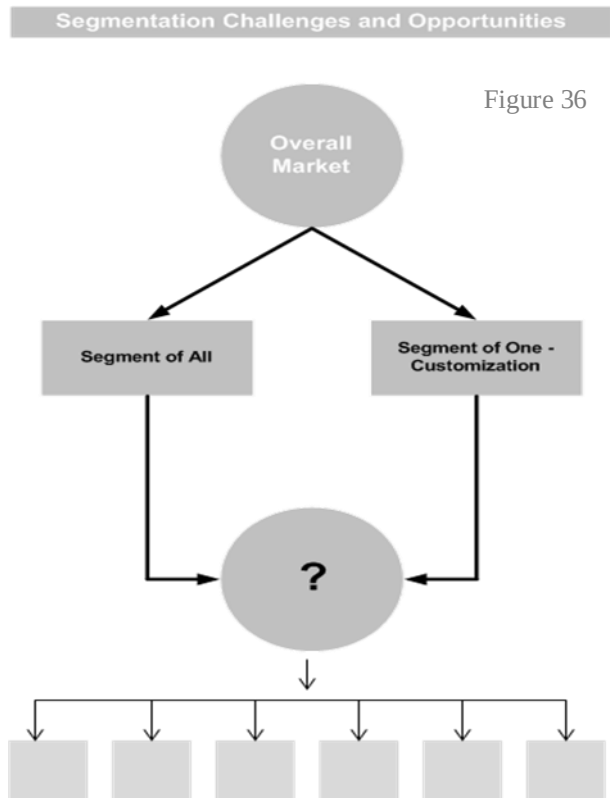
Complete information on customers with names, demographics in relation to segmentation, the revenue they generate over a period of time are the elements of an effective database. With a sound knowledge about customers, quality offerings, and continual assessment of the relationships, providers can retain their best customers and enjoy the benefits of retention.

Do not assume from the preceding learning that the customer is always right and therefore should be subjected to retention, always! There are situations in which customers become a burden on the organization and hence mandate some caution on part of the company. The following situations should give a provider some cause for changing this perception. The provider should not choose¹

1. The wrong segment
2. Unprofitable segment
3. Difficult customers

The wrong segment: The provider must not be tempted into situations that in the long term would cause them embarrassment. There must be total compatibility between the service specialty and the nature of service demanded. An architectural firm specializing in the area of housing should avoid getting into designing commercial buildings or seeking to undertake town planning projects.

Unprofitable segment: Providers should also look into the segmental attractiveness by way of its size and potential to offer sustainability toward profits. There could be services that are rendered to the fullest satisfaction of the customers, but if the cost of doing business and maintaining relationships exceed the revenue generated, then such segments should be avoided.



Providers must be sensitive to customers' history, which if reflects a negative picture should become the basis of a realistic decision of not doing business with such customers. Also, care should be taken about dealing with customers, who end up consuming most of the providers' service time at the cost of other customers. In other words, customers taking more than the share of their time should be avoided. This is where providers should strike the balance between responsiveness and the need to be realistic. The strategy of adaptability, therefore, should be carved out on a selective basis only for those customers, who fall on the merit of relationship development.

Difficult customers: These could be defined as those who put a lot of economic and emotional stress on the employees of the company. Examples could be given of those who may like to use service as a test case free of cost and place unrealistic demands on the company.

Fire the customer: Whenever, providers have the feeling that some customers are difficult and less loyal with the company, they should follow a strategy of circumspection – meaning by being realistic whether to develop relationship or not. You can find examples of companies that have cut down on the number of customers they serve due to one reason or the other, but centering mainly on customers' unattractiveness. In the process, they have made more profits by focusing on those they can serve better and can get better returns from them in one way or the other.

It is said that best customers may not be the ones who always bring more profits to the company; they also could be the ones, who give good ideas to bring about improvements in your services.

Profitability Segments: Differentiation among apostles, indifferent customers, and terrorists must be made in order to identify segments of profitability. This may not be an easy exercise especially for large corporations in the absence of detailed data. However, traditional indications like frequency of purchases, the services bought, the price paid, and the level of being demanding or easy are some of the parameters on which customers could be gauged as profitable or not profitable. The financial worth of the customers to the company in terms of costs involved in keeping them and the revenues generated by them become the basis of profitability.

Like in many other situations, in services also, it is seen that 20% of the customers generate 80% of business. The challenging part is to differentiate among the 80% of customers who generate just about 20% of revenue.

In order to have a better understanding of segmentation, providers attempt to make distinction among them by way of the following tiers in many of the industries.

- **Platinum:** Customers are categorized as the most loyal and profitable. These are heavy users of services who are willing to try new offerings and are not price sensitive.
- **Gold:** A little less loyal and profitable, these customers look for price discounts on heavy purchases and they have the tendency to buy across more suppliers.
- **Iron:** Customers who provide the volume needed to fill company's selling capacity. Their loyalty level does not really qualify for special treatment.
- **Lead:** These customers cost the company more than they bring to the company, tie up resources and are problem customers.

The basic idea of making this tier classification is to make an effort for increased purchases by all in relation to the tiers they fall in.

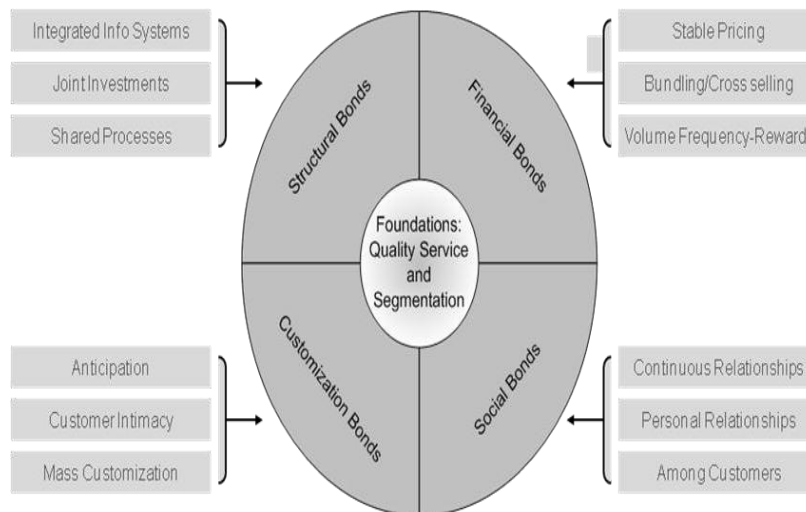
Relationship Strategies

There are different levels of strategies that bring customers closer to business. According to experts, execution of strategy at every level creates a bond that can be strengthened by executing the next level of

strategies.² There are four levels and let's see how this succession of strategies binds them with the company and the bonding works. A graphical presentation also accompanies as figure 37.

Financial Bonds: Providers create these bonds in three ways. *Offering rewards* on volume purchases that may be done with great frequency. Points accumulated on frequent flying with an airline or usage of credit card with great frequency is an example of this strategy. The more you fly or the more you use card, the more you get rewards that translate into better pricing. The underlying rationale behind this strategy is to have the customer spend more with the company.

Figure 37



Providers let customers have the benefit of *cross-selling and bundling* when customers buy other products offered by the provider with some incentives. The products offered could be from the same provider or from those with whom the provider has gotten into some form of joint ventures (JVs). This could be exemplified by customers utilizing their accumulated points on usage of credit cards to buy services like hotel rooms or travel service at a discount.

Another strategy could be the offering of *stable pricing* to loyal customers by either not going for a price increase or doing it on a nominal basis thus keeping it stable.

Social Bonds: The second level of bonding works in the presence of the financial bonds. Providers tend to develop *interpersonal social relationships* that could be exemplified in both B-to-C and B-to-B situations. Accounting and law firms get into such relationships. Similarly, large corporations with their network of associates get into relationships that bring more loyalty to the business partnerships.

Another facet of this concept is *customer-to customer* relationships that bind all customers more to the provider's business, like in the case of social and fitness clubs, private schools and training institutes of different kinds. Customers tend to form strong bonds of association with each other and hence with the club, school, or training institute thereby strengthening the relationship to the benefit of both.

Customization Bonds: This is a step further from financial and social bonds. The underlying assumption is that intimate knowledge of customers lead to good customization strategies by way of developing one-to-one solutions.

What must be born iWhat must be born in mind is that customization is flexible processes and organizational structures to produce varied and often individually customized products and services at the price of standardized, mass produced products. It is not offering of endless solutions; it rather involves little effort to bring about a few changes in order to meet customers' individual requirements.

Structural Bonds: These bonds are created by offering services that are built into the delivery system of a customer. Such services are created through integration of efforts by two organizations. These services are mostly technology based and require a distinct set of expertise on part of both the

providers for their development and delivery. Examples could be systems that enable banks to send SMS alerts to their customers upon card-based transactions or airlines using the help of such systems toward reservations. In case of banks, it is the software development company that develops the software enabling the bank to send SMS alerts.

The rationale is building and integrating such services into the systems and enabling them (systems) deliver services more efficiently through joint processes. Hard to imitate, these strategies could be better placed than financial, social, and customization.

Summary

An accurate definition of the segment(s) that the company should operate in is of high significance in order for the sellers to maintain compatibility between what they offer and what is desired by customers. Varied nature of customers' demands should be taken into consideration from a positive angle. It is the heterogeneous nature of customers' demands that offer sellers the opportunity to differentiate different offerings and customize them. However, they also have to be cautious of not spending too much of their resources on customizing and make their life difficult. Services do offer the opportunity of making subtle differences among their features at minimal extra costs.

Based on determining the right segments, sellers should embark on the relationship strategies. Difficult and unprofitable customers should be avoided and efforts expended on keeping the ones that can profitably be retained.

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SERVICES MARKETING**Introduction**

Along with marketing research, segmentation, and customer relationship marketing, service recovery is another area that strategically helps us bridge gap 1. Recovery basically is an effort to fix a service failure. The best of companies with the best of intentions do run into failure situations feeling the need for fixing failures.¹ Recovery, therefore, is an effort on part of providers to come up with a well-designed system that can help providers to cope with failures effectively. The lecture looks into different strategies that providers have at their disposal to recover from failing situations.

Benefits of recovery

More satisfaction: Good recoveries when staged to compensate for failures do result in making customers more loyal than they would have been if there was no failure.² The impact of recovery can be big enough for dissatisfied customers to start feeling satisfied with a great sense of loyalty. Such customers are more likely to come back and buy the service than those whose complaints are not addressed.

Brings in perfection: When recovery strategies are staged effectively, they bring in perfection on part of the providers to the point that they start doing things right the very first time.³ Recovery, therefore, becomes a basis of a continuous program of improvements.

Types of complainers

Different customers respond to complaints in different ways.⁴ Actually, not all of them always respond to complaints. Despite having the negative feelings of anger, disappointment, and dissatisfaction, they may find complaining against their values or may think it is not worth the effort. Such customers are **“passive”** customers and pose a real threat to a company’s future. They do not offer the company the luxury of setting things right! They also do not talk much against the service and may not spread the negative word of mouth. They simply switch suppliers.

The other kind is **“Voicers”**, who complain to the provider, do not complain to third parties and spread negative word-of-mouth. They are convinced complaining is their right; it brings in social benefits by doing a favor to others.

“Irates” are more into spreading the negative word-of-mouth. They switch suppliers. They are therefore more harmful than the preceding two categories, for they damage the company on two fronts – talking against it and doing business with someone else.

“Activists” have an even more stubborn stance toward pitching themselves against the suppliers. They complain to everyone, spread the negative word, and switch supplier. They go to the extent of complaining to the relevant associations and may also not hesitate filing a lawsuit against the company.

Expectations of complainers

What carries more significance is to know what is it that the complaining types expect from the company when they do complain? They expect fair treatment for compensation, which is divided among three themes, namely⁵

- Outcome fairness
- Procedural fairness
- Interaction fairness

Outcome fairness is the amount of compensation by way of free service, discount next time, or any other measure that the customers think is equal to their suffering. They demand equity and think what they get must be in exchange for what they have gone through in terms of their trouble. For example, a hotel staff must be able to give a better room or a discount if a guest had to wait for a room that was not readied for hours after his arrival. Or, a waitress must replace the food if it carried foul smell or looked stale.

Procedural fairness is all about customers expecting “complaint procedures” to be straight, easy and customer friendly. Complicated procedures add to complainant’s misery. They make customers shy of lodging complaints.

Customers expect providers to be adaptable and spontaneous to their individual complaints. Good employees make the correction look like a minor matter and capitalize on the opportunity of making the customer more loyal. They take full responsibility and go an extra mile by being adaptable and spontaneous.

Interaction fairness is about how customers are treated when they are lodging a complaint. They want to be treated in an extra nice manner for they have already suffered. Here, providers must have in place the balance between adaptability and empowerment. An untrained employee with no powers to take responsibility is bound to create a scene in response to a complaint from an inconvenienced customer. Employees must be knowledgeable, courteous, and considerate.

Recovery Strategies⁶

Fail Safe – Do it right the first time

This is the best strategy according to which sellers must not give the customer a cause for complaint and keep him happy and satisfied. Doing this, sellers can save the recovery cost, for performing the service all over again or giving some discount or other incentives add to costs. This strategy is difficult to implement for the reasons that companies with the best of intentions do make mistakes and something can go wrong. Not being impossible, however, the strategy offers serious companies to strive for the goal of “zero defections” to do things right the first time. The result may not be absolute zero, but companies do try to achieve this by way of creating a culture of zero defections.

Toward this each employee must understand the essence of the culture and appreciate the goals of the company in maintaining and retaining customers. Employees must understand the lifetime value of a customer, which essentially is the amount spent over an average lifetime of a week, a month, or a year*. Projections are made about the number of years a customer may stick with the company for purchasing. Unless employees understand the loss of revenue on account of defections and the costs associated with bringing in new customers only to replenish the ones that leave, they cannot be fully committed to such a culture.⁷

$$\begin{aligned} & \text{*Amount spent} \times \text{No. of orders} \times \text{Lifetime} = \text{Life time Value} \\ & 100 \times 4 \times 12 = 4,800 \end{aligned}$$

The lifetime of a customer could be any time frame depending on the projected stay of the customer with the company. Level of satisfaction of customers becomes an important determinant toward making such projections.

Employees must be educated to detect the defectors by way of sensing declining sales and signs of dissatisfaction and then acting to correct the situation. Declining sales on part of a customer may point out the importance of research which reveals the causes of dissatisfaction.

Employees must also be given incentives and bonuses if they can control defections. Different levels of defections can be tied with different levels of incentives. In the absence of incentives, employees may not feel wholeheartedly committed to the cause of total eradication of complaints. Incentives reduce complaints, which reduce defections!

Encourage complaints

Complaint solicitation: To be proactive, companies must create a culture that may encourage seeking of complaints. Customers must be asked of their perceptions of service to find out if they are OK with the service! This is an extension of the research study method of “Complaints Solicitation”. Another method could be tracing dissatisfied customers through studies like “Critical Incident Technique” and “Lost Customer Research”.

Angry customers are friends: Keep in mind that it is generally angry customers who complain and, therefore, they can be companies’ best friends, for they are the ones who have a chance to come back.

Valarie A. Zeithaml and Mary Jo Bitner, “Services Marketing – Integrating Focus Across The Firm”, 3rd edition; McGraw Hill (198)

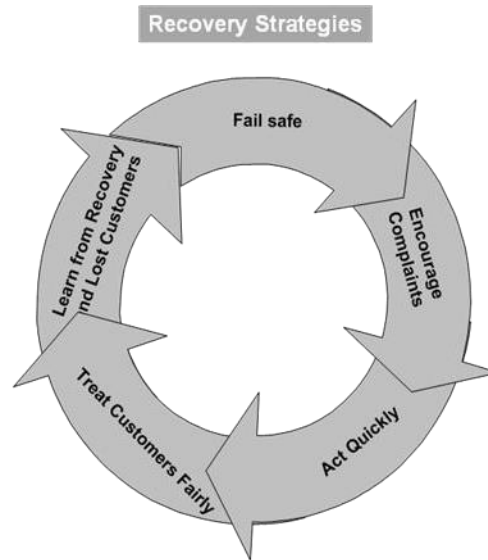


Figure 38

Passive are dangerous: Passive ones switch suppliers without the company knowing of it and it is here that we need the support of “Complaint Solicitation”.

Improved processes: Encouraging customers to complain let the companies look into the processes and then make corrections wherever those are warranted. To facilitate customers lodge their complaints, companies should install toll-free numbers and internet support that can make registering of complaints easy. Executive listening is a strategy for this purpose!

Act Quickly

Encouraging complaints and maintaining a database for the same is not much of use if action on complaints is taken in a belated manner. Quick action on complaints convinces the dissatisfied customer about company’s willingness and commitment to resolution of problems. The following, in this regard, is important.

Recovery skills: Staff has got to be trained about recovery skills as part of creating the culture of customer friendly atmosphere. The recovery skills call for identifying the root cause of the problem, looking into the solution, and then taking initiative for its resolution.

Runaround: The problem occurs when customers are routed through different personnel to lodge their complaint to the relevant person. This could be frustrating and a sure recipe for supplier switch.

The first one takes the complaint: Some companies have made their systems so sophisticated that any personnel who come into contact with an annoyed customer can take a complaint with responsibility for its resolution. This calls for empowerment of employees and clarity of objective among everyone that customer comes first.

Empowerment with tools and resources: Empowerment brings into question the ability of the company to place at the disposal of those empowered all tools and resources required to fix the problem. A

company with all the systems and procedures well laid out is in a position to better empower its employees.

Empowerment with incentives: Empowerment should be accompanied by incentives for staff to resolve customers' problems quickly. Maintenance of database of all dissatisfied customers provide an excellent opportunity to first maintaining a touch with those customers, second improving processes, and third bringing about changes for future in sight. The achievement of all this is possible only by being quick in listening to and moving for resolving the problem.

Treat Customers Fairly

Companies as a matter of strategy should follow the three elements of fair treatment:

- Fair outcome
- Fair processes with no complications
- Fair treatment when customers come with complaints

Learn from recovery and lost customers

Recovery is an excellent opportunity to record complete information about complaining customers and hence becomes the basis for improving processes and features. "Lost Customers Research" must be employed to trace the reasons for defections. It should be done at a higher level, especially in B-to-B situations, in which even the loss of one customer can adversely impact the company. The focus should be on those customers who were profitable and left causing a dent into company's revenues. Research carrying questions that really probe into the causes should be asked very straight forwardly to find out the causes of defections.

Causes of defection

According to a research conducted by American marketing Association, there are eight different major causes of defections (exhibited as figure 39) that a company, if it is open to be critical of itself, may look into.⁸ For the convenience of learning, the causes are bracketed into the following three areas:

- Company prompted
- Market prompted
- Strategy prompted

A further division of them is presented in the graphical presentation and is also summarized below:

Company prompted

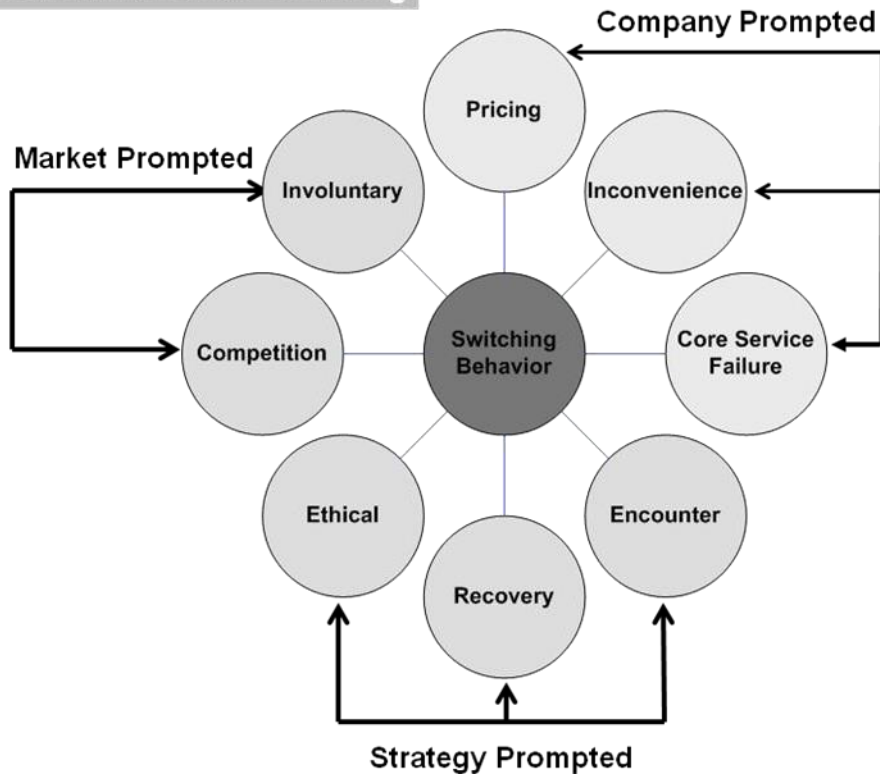
1. Pricing (high price; frequent price increases; unfair pricing; and, deceptive pricing)
2. Inconvenience (location not ideal; unsuitable working hours; waiting etc)
3. Core service failure (service mistakes; billing errors)

Strategy prompted

1. Encounter failures (Impolite; unresponsive; unknowledgeable staff members)
2. Response to service failure (negative response; no response; no positive outcome; complicated procedures)
3. Ethical problems (cheat; unsafe; conflict of interest)

Figure 39

Causes behind Service Switching



1. Competition (performs better; offers attractions)
2. Involuntary switching (provider moved or closed)

Summary

Lapses do occur and therefore every company should be prepared to recover any possible losses from service failures. If recovered effectively, service failures have a chance to convert disgruntled customers into loyal customers. For that, companies must stage effective recovery strategies quickly in a way that customers feel convinced of getting the desired satisfaction by going through simple procedures and getting a fair treatment.

Companies should also learn from the mistakes they have been making to gain mastery of the procedures they work on day in and day out. For the objective to retain customers, companies should also understand the factors responsible for defections. Such an understanding helps companies do things right the first time and institutionalize effective recovery strategies.

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SERVICES MARKETING**Introduction**

This lecture takes us into the area of guarantees, which offer providers support in convincingly selling their services. Backed by guarantees services become more authentic taking away to a large extent the elements of apprehensions on part of the customers about the quality of service(s) they consider buying.

Service guarantees¹

A guarantee is an assurance of quality or length of use of a product, often with a promise of reimbursement. Once popular among manufactured goods, they are now gaining ground among service products as effective tools of marketing and product quality and authenticity. Effective guarantees complement company's recovery strategies and go a long way in repairing the damage that otherwise could be caused.

Benefits of guarantees²

Focus on customers: A guarantee lets a company maintain focus, since it is committed to deliver those aspects of service that are guaranteed. Companies should be very specific about the aspects that are to be guaranteed. It is obvious that the guaranteed aspects should be the ones that concern the customers most. Some companies give an overall guarantee of total satisfaction; it may not serve the purpose under all circumstances, for it falls short of defining what is reimbursable. However, if a company is confident of the totality of features and delivery of its service as of extremely high quality with a proven record of customer acceptance, then this guarantee may work.

It sets clear standards for the organization: Due to the focus on customer for reimbursement and the commitment to deliver, it brings the staff under pressure of delivering a service exactly the way it is designed for delivery.

It improves employees' behavior: It binds them to the standards that must be met. The promises made with the customer come under a renewed focus and employees take that as a challenge.

It generates quick and relevant feedback from the customers: It makes customers less withdrawn and shy in lodging complaints, for it spells out the attributes on which they can lodge complaints. It therefore becomes the basis of specific complaints and let the company generate information relating those aspects that really matter to customers.

It offers a quick opportunity for the company to recover a failed service: as a result, it becomes the basis of continuous improvements in the system.

It elevates morale of the employees: Quality service and efficient delivery keep invocation of guarantees away. When there are less instances of invocation, employees feel proud of the service they are rendering. It makes them more enthusiastic and committed to the delivery of good service. What really becomes the basis of this high morale and confidence is the less and less incidences of complaints and recoveries that lessen the costs involved.

It makes customers more confident of the service: Customers who are always uncertain during the pre-purchase phase become confident owing to company's confidence in its service product. It lessens the risk factor and leads to positive evaluation on part of the customer.

All in all, guarantees become a good source of confidence for the customer, employees, and lead to better financial results for the company.

Types of guarantees³

There are different types of guarantees and it is the responsibility of management to offer a guarantee that is the most appropriate under the circumstances the company is operating.

Satisfaction guarantees: These are the ones that are very global in nature and the provider is supposed to reimburse due to any aspect of service or dimension of the accompanying product not falling on customer's merit. Such guarantees are either given by extremely successful corporations or end up in confusion.

Attribute guarantees: These guarantees center upon those aspects and dimensions that really matter to the customers, meaning the ones that are prioritized by customers as important. A better form of a guarantee is assurance on overall satisfaction along with specifying the attributes that are subject to reimbursement.

Characteristics of effective guarantees⁴

The following characteristics make guarantees effective.

Unconditional: The guarantee has to be without any strings attached. It must be reimbursed without any conditions if a provider wants customers to have confidence in the service. Some guarantees are prepared with the intention of making them look like a legal document that must make it difficult for customers to invoke the guarantee. Smartness lies not in keeping customers from invoking it; it rather lies in winning them over.

Meaningful: The guarantee must carry those elements that matter to customers and reimbursement made on them to cover dissatisfaction.

Easy to understand: It should be stated in very simple, lucid manner so it can be understood equally well by the customers as well as the employees.

Easy to invoke and collect: The customer should not be put into a test situation by having to go through a red tape of procedures to collect the guaranteed amount. It becomes self-defeating, giving the customer the impression that the company is not willing to reimburse and hence is not sincere. This might look too customer friendly at the cost of the service seller's interests.

Actually, providers must think many times over before they offer a guarantee. Not all situations suit all providers to start giving guarantees. Let's take a look at situations and the merit they warrant for or against a guarantee. A lot of questions are to be answered before a guarantee is put in place.

Against the guarantee - a guarantee must not be extended when

- When the existing quality is poor. Guarantee works best when providers are absolutely sure of the core quality and it is invoked in isolated incidences.
- When it costs more than it benefits if there are quality problems with the core of the service.
- It is at odds with company image. When the provider already has a poor quality image the presence of a guarantee might become counter-productive. Customers start questioning the rationale behind the guarantee.

For the guarantee – it should be extended when

- Customers perceive little risk in buying the service. When the service is inexpensive, guarantee may work as a promotional tool.

- There is a great variability in service quality from different providers and your company happens to be the first one to offer guarantee on a quality service.

Closing of Gap 1

With the understanding of marketing research, segmentation, relationship marketing, and recovery we are now in a position to minimize gap 1.

Marketing research provides us with excellent tools to reveal certain important facts about our service on a continual basis for corrective actions and improvements.

A critical understanding of segmentation is important for an insight into not just different segments, but also subtle variations within an overall segment. Due to the factor of heterogeneity, sellers must be sensitive to development of relationships with the right segments of their customers.

A careful consideration of recovery strategies bring sellers to a point where they have an excellent chance to compensate for their mistakes and win the customers back over in their favor.

Strategic Direction to Close Gap 1

Figure 40



All the areas lay an effective ground for understanding what really is expected by the customer, leaving sellers assumptions about what customers should expect to rest. Hence, we know how to minimize gap 1. The following figure 40 summarizes the four strategic areas.

Gap 2

Our understanding of the above takes us forward into the significance of service design, an area the study of which will help us look into strategies for closing gap 2.

The significance of design⁵

The right design of a service product is vital toward developing the right specifications and standards in the absence of which we may not be able to close gap 2 – the gap between management perceptions and specifications/standards. Service design lays the ground for standards and specifications and therefore is the foundation stone of the strategic effort toward minimizing this gap.

Everything in this phase starts with an accurate design for the service product. For not being tangible, service products are a little more difficult to design as compared with manufactured goods. They cannot be drawn on drawing boards and produced as prototypes for customers' reaction.

Incompatibility of design with expectations⁶

For the reason that providers generally have a tendency to view services with a sense of oversimplification, incompleteness, subjectivity, and biased interpretation, they tend either not to come up with the required design standards or establish the ones that are insufficient and parsimonious.

The above behavior stems from the fundamental characteristics of services. If sellers were dealing with tangibles, they would be forced to come up with a prototype model or make a competitive product as the benchmark. Services being invisible and highly variable from sale to sale, providers think such standards are not required. Even if they are convinced of their requirement, they think their staff is accustomed to delivering the service in a certain established way and hence it will be impossible to change their behavior and install the required standards.

Lack of good quality standards are interpreted as lack of high commitment to service by the management. The front staff therefore delivers something that is below customers' standards and hence causes a gap. The need is not just to have good standards, but the ones defined by the customers, meaning a reflection of customers' expectations and not the ones defined by the company to achieve high efficiency and productivity.

None of the assumptions can be offered as a defense against the traditional behavior; the providers of services have to come up with a design that reflects customers' expectations. They can have tools at their disposal to come up with the right design that is a reflection of customers' expectations.

The physical evidence⁷

To support the right design accompanied by the right standards, providers need to have the right physical evidence that includes business cards, stationery, the office décor, uniforms, and signage etc. We are going to learn the importance of and the role that it plays toward having the right standards. Our understanding of the three factors of the right design, the right standards, and the right physical evidence will let us minimize the gap 2.

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1. Valarie A. Zeithaml and Mary Jo Bitner, *"Services Marketing – Integrating Customer Focus Across The Firm"*, 3rd edition; McGraw Hill (205)
2. *Ibid* (206)
3. *Ibid* (207)
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5. *Ibid* (217-218)
6. *Ibid* (217-218)
7. *Ibid* (217-218)

SERVICES MARKETING**Introduction**

Based on our understanding that development of standards is not given its due consideration, this lecture will make us learn how to proceed with the right design of a service to ensure that right standards ensue.

The characteristic of variability along with a few assumptions on part of service providers keep them from coming up with the right service design and hence the standards. Providers get into a typical set of symptoms and disorder that offer the following challenges.¹

- Oversimplification
- Incompleteness
- Subjectivity
- Biased Interpretation

Many of the steps that are required to complete the design and the standards are not defined with the assumption that all understand them. The development process requires that it be taken in a systematic manner not leaving any dimensions unattended or unconsidered.

The new service development**Characteristics**

The development program needs to be executed in a well-planned way to be successful. And, there are four characteristics of that process as follows.²

- It must be very objective and not subjective
- It must be precise and not vague
- It must be fact-based and not opinion-based
- It must be methodological and not philosophical

Benefits

The achievement of above characteristics will result in the following benefits:

The strategic effort will be superior in terms of human resources committed to the service product, research and development work and related initiatives.

Process of operations starting with pre-launch activities and technological support will be superior.

The choice of market segments will be right in terms of potential.

Service product will be as per customer needs and have advantage over competing products with technological sophistication.

Involvement of both employees and customers

The development program necessitates the involvement of both employees and customers in the development process. Front-end employees being psychologically and physically close to customers can throw a better light on customers' *right expectations and the real standards* that the organization should establish. They can discuss issues and make valuable inputs toward development.

Customers being part of the production process should also be involved and asked how they feel about the development of a service from feature and delivery standpoints. The importance of qualitative research makes its mark here and the companies can define a lot of issues relating product development.

Stages in New Service Design

A very strategic area, it comprises of a few steps that can be described as the ones applicable in tangible goods as well. These steps may look very much like the ones employed for goods, in concept and sequence, but definitely are characterized by differences in implementation. Starting with the vision and mission for the business strategy, it takes us into the service strategy development, which lays the ground for developing the right service product and choosing the appropriate operational position.

As part of the business strategy, vision and mission for the organization are defined as the first step. Vision is the destination, while mission is the things at hand to reach that destination.

New service strategy is developed by defining the scope of new service product portfolio. This takes us into the area of classification of services in the light of which we determine the nature of service product. The structure of the organization and all cross-functional relationships are defined and reviewed to enable everyone to have a sense of ownership in the service. Unless all across the organization have a unanimous view of the service, the strategy development will not have any meaning and work at cross purposes.

The new service(s) is developed in view of the organizational goals of revenues, market segmentation, the size and growth of the market, and profitability to be achieved. Such goals help the company generate ideas about the pattern of growth, which may come from either of the two ways – by focusing on existing services with improvements or introducing new services. The emphasis on customers likewise could be in either of the ways – on existing customers or on new customers. This could be explained with the help of a matrix as figure 41.³

Existing Products-Existing Customers: When companies concentrate on existing products they can work on building the share of the market by approaching their existing customers. This could be achieved by increasing the existing consumption within the same segments or attracting more segments. ServQual can pinpoint the need to add more segments.

Existing Products-New Customers: If companies decide to focus on new customers, they can do so by developing markets by having a better outreach and distribution.

New Product-Existing Customers: If they decide to offer new products/features to have a wider portfolio, they can concentrate on their existing customers, starting with “Platinum” also having an appeal for the “Gold” ones. Companies should start with approaching apostles followed by indifferent customers.

New Products-New Customers: The strategic challenge for the companies to have an appeal for their new products from new customers is greater. But, this can be met after companies have attracted their existing customers, who can become the basis of bringing in new customers. The essence of this strategy is to use the reputation and brand power of their service brand to leverage the move.

Figure 41

		Markets	
		Existing Customers	New Customers
Offerings	Existing Service	Share Building	Market Development
	New Service	Service Development	Diversification

Which way to go?

The growth strategy, as we have seen, offers different scenarios and depending on the resources of the company and the market needs, the company can decide which way to go. Facts found through marketing research should form the basis of the strategic direction.

Planning process

Once carved out, the strategic direction will help us come up with the new service strategy, which in turn will take us into the step-wise planning process that companies should follow to make sure the design come up to customers' expectations. The planning process is broadly divided into two parts – front-end planning and implementation as exhibited in figure 43.⁴

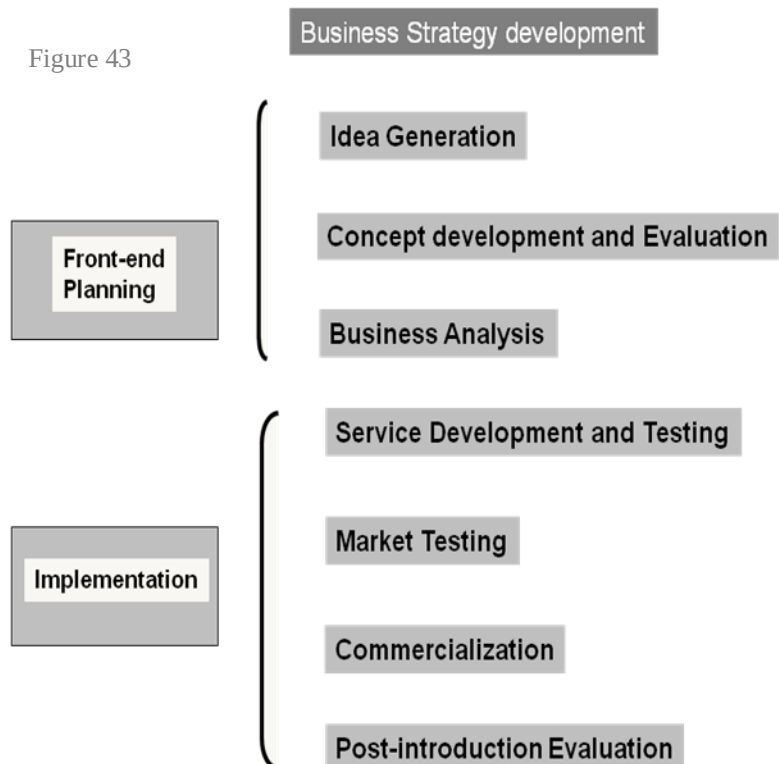
Front-end Planning

Idea Generation: this is screening of ideas from a collection of few. The techniques could be plain idea solicitation from customers and employees, research (lead and market scanning), and also competitive offerings. A department should be created for this particular purpose, which is responsible for generating new ideas, assembling different teams for screening, and ensuring that the idea is in line with the needs of the market. Another important consideration is to ensure that the idea screened is in line with company's resource limitations and capabilities.

Service Concept Development and Evaluation: It is a description of the need and its fulfillment dimension in relation to the service. Just like in the case of tangibles, companies develop the concept as to what need the service product is going to fulfill and how will it fulfill!

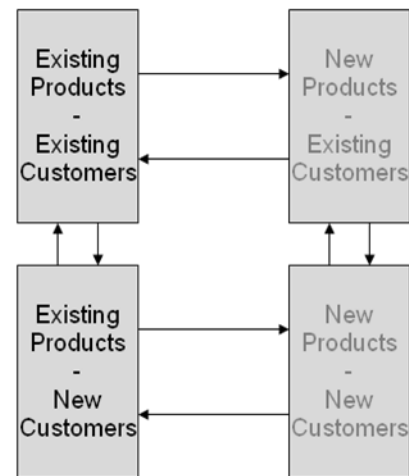
The stark difference here is the intangibility, which does not offer the luxury of a drawing board or a pictorial of the product. It has to be developed through consensus of all who matter in the company. The definition of the concept can take place only after opinions of all converge on the same point.

Figure 43



Complementary Effect of Growth Patterns

Figure 42



After the concept, a clear definition of what the service will do, the need it will address, complete documentation of the process as itemized points along with its features is discussed. The effort is undertaken for consensus building and evaluation by all. The roles of employees and customers are also discussed before it is taken to the employees and the customers to see if they understand what the service is trying to achieve.

Summary

Companies should be careful about choosing the growth path by taking into consideration their existing products, their capability to introduce new products in relation to their resource capability, the customer base they have, and the one they envisage developing. After gaining clarity on the path to be followed for growth and development, they should follow systematically the service development process, not leaving anything to assumptions.

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1. Valarie A. Zeithaml and Mary Jo Bitner, “Services Marketing – Integrating Customer Focus Across The Firm”, 3rd edition; McGraw Hill (220-222)
2. Ibid (222)
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4. Ibid (226-233)

SERVICES MARKETING**Introduction**

This lecture is a continuation of the planning process followed for designing a service of right standards and specifications.

Front-end planning

Business Analysis: As the term suggests, this step takes us into sales projections and complete feasibility of the service including things like pricing, costs, margins and all related financials. The strategic implications of HR measures in terms of new staff hiring, training, and any displacements and relocation of staff are also considered.

Implementation

Service Development and Testing: As against service concept that outlines the strategic aspects of the service along with features, this stage deals with all the details of itemized points. For example, if a restaurant talked about the need to start offering a direct delivery service as an enhanced feature in the concept stage, the management has got to pinpoint all the points of interaction and the details of delivery from taking the order to communicating the same to the kitchen to preparation to handling of delivery.

The documentation of all points of sales, operations, supply chain, and administrative matters should be done comprehensively for the sake of clarity, completeness, and objectivity. The objective here is to see to it that challenges of service design are met. To seek consensus, the management needs to place the complete documentation before all concerned, who are representatives of all departments.

Consensus becomes the basis of implementation plan that should be put in place for all activities. Once in place, the plan should be implemented by involving employees and customers for staging exercises of order taking and execution of the service. This step is extremely significant for the reason that service development, design, and delivery are much intertwined.

Market Testing: This is again a challenging situation in services. Because of the fact that services are inseparable, there is no way to test a service in isolation. For the fact that delivery takes place at the time of production, we cannot make a service, store it and then test run it in a market of your choice. Also for the fact that distribution points are not too many in most of the services, a new or a redesigned service has to be tested along with the services that are being sold from the existing point(s). To meet this challenge, providers have one choice available to them to keep the test limited by selling the service to employees and their families.

Banks get into such an exercise. A foreign bank in the country (HSBC in 2008) test marketed its credit card by first launching it among its employees and their families to look into the operational smoothness or the lack of it during the test stage.

Commercialization: At this stage the service hits the target market intended for sale. Once on sale, there are two important objectives to achieve:

1. Making sure that it has the support and enthusiasm of the staff that is selling it. Assessing any lapses of internal marketing that may need to be fixed to have everyone on the same page is part of the objective.
2. Tracking sales and maintaining complete records of customers to follow developments during encounters.

Post-introduction Evaluation: A vigorous follow-up is needed to track developments in this phase. This is the stage that moulds future behavior of customers. Management brings about any adjustments to improve delivery, costs, and operating efficiencies. At the same time, managers assess the need to cause any changes required to the variables of marketing mix. The review process must be institutionalized for the reason that it helps in enhancing the service quality and its delivery.

Blueprinting¹

Just like in manufacturing a product is produced after a deliberate process of planning and designing with detailed specifications, services should also be designed in a likewise way to ensure nothing remains short of consideration and deliberation.

Blueprinting is a process that highlights by way of a process flow diagram the service system so that the people who are to execute the service can understand their roles. Also, the company can ensure that no roles are omitted. The systematic process is portrayed in a way that the roles of customers, employees, and the processes that support those roles are spelled out to explicitly define each and every step of the service delivery.

Components of a blueprint²

Since the blueprint shows the whole process, we must understand the components that it highlights and how those are depicted on it in a way that a service delivery can be understood with clarity on the paper. There are four components to it:

- Customer actions
- Onstage actions of the employees
- Backstage actions of the employees
- Processes

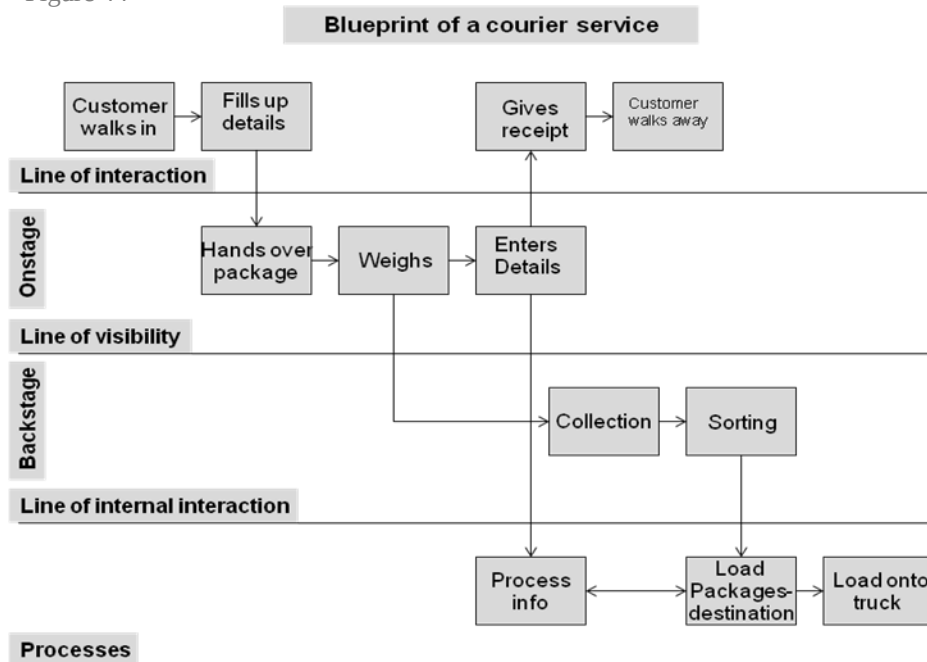
Customer actions: These are the steps, actions, and the interactions performed by customers during purchasing, consumption, and evaluation. A customer walking into a *courier service* hands over his parcel with certain requests; a customer seeking a medical test requests first an appointment, visits the facility, goes through certain pre-consulting tests administered by the support staff of the doctor, meets with the doctor, gets back to the staff to get reports and interacts for further appointments. Only when we are blueprinting all the steps involved in the process, do we realize how comprehensive could be the execution, interactions at various points, and the need to have the right staff.

Onstage employee actions: These are all those actions by the employees that are taken during interaction with the customers. In the above example of courier, employees' actions will be inputting of the relevant information into the system in relation to destination and sorting, weighing the package, giving the receipt to the customers etc.

Backstage employee actions: These are all those actions taken by employees not visible to the customers. This could be interactions at various points between employees toward performance of the system. Actual sorting of packages for transportation to a centralized collection point for onward delivery could be just one.

Processes: These are the activities and tasks, internal interactions and relevant steps performed in support of the service delivery. In the above examples, it would be all those tasks mentioned in relation to backstage activities. In case of the medical examination all the test reports preparation and diagnostics are processes that support the service delivery.

Figure 44



The components discussed above are depicted in figure 44 as a blueprint. Each component is a different level. The top level is portrayed by the line of interaction, signifying that all customer actions take place above this line owing to the interaction with the employees. Another feature of this print is that we can see an interaction take place the moment a vertical line crosses the horizontal line.

The next horizontal line is the line of visibility that separates visible (onstage) activities from those of backstage. This is the evidence of service to customer and is created in light of the nature of the service and the appeal it may have for the customer. This is exemplified by some of the fast food restaurants and coffee shops. Such setups have their show kitchens operating very much in visibility of the customer.

The area below the line of visibility is that of processes, which support the service delivery and are performed by the support staff that may or may not be visible to customers. This area is represented by interactions between employees of the company. Vertical lines here as well represent internal encounters.

The above explains the basic flow that may characterize a blueprint. With complete explosion of all activities, we can see in even more detail the interactions and the tasks involved therein. It will show us where and how much customers are involved; who helps the customer; how many people we need to help him; what kind of relationships are defined among the staff that support each other to deliver the service; and, how many staff members we need to do different tasks etc.

Reading a blueprint³

Horizontal reading shows us customer actions and support to those by the staff; vertical actions represent interaction among staff to deliver the service. The overall reading offers an integrated view of the service.

The checklist of blueprint preparation⁴

Following are some of the important points that we must consider while coming up with a blueprint:

1. Identify the process.
2. Identify the customer and the segment you are dealing in.
3. Map all actions starting with customer's initiation of the purchase process – keep focus on the customer.

4. Map contact employee actions above the line of visibility, onstage as well as backstage and the processes.
5. Link contact activities and define the support function.
6. Add evidence of service at every step – documents etc.

Service blueprinting is an excellent exercise in portraying all the tasks involved in a process and then dividing them according to the components of the blueprint. The components let us understand with more clarity not just the comprehensiveness of the process, but also the relationships between employees whose collective effort it is to deliver the service. It goes further into determining the load of work on each one of the component and helps management decide the strength of people for various tasks thereby indicating the human resource requirement.

The foregoing provides a good basis to ensure that we generate all the relevant information and identify activities and tasks to be performed. This in turn leads us into devising the right structure for the departments concerned. A collection of all the processes becomes the overall pool of process flows with relevant documentation. Needless to say, the overall structure of the organization is a reflection of all the company processes.

Summary

The design of a service has to be a systematic effort. While we go through the stages of front-end planning and implementation, we cannot escape development of the relevant processes. Processes should be developed with the help of blueprinting, which again is a systematic exercise to ensure optimal efficiency of procedures. Efficient procedures not only save costs for the companies, but also are customer-friendly.

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1. Valarie A. Zeithaml and Mary Jo Bitner, “Services Marketing – Integrating Customer Focus Across The Firm”, 3rd edition; McGraw Hill (233)
2. Ibid (234-235)
3. Ibid (238)
4. Ibid (239-241)

SERVICES MARKETING**Introduction**

This lecture further explores the area of blueprinting in relation to cost efficiency and productivity. We shall also learn the important considerations for blueprinting and the benefits it offers organizations.

Efficiency and Productivity

One of the important objectives of blueprinting is to ensure that we can achieve maximum efficiency and productivity out of an operational service design. We do that with the help of calculating process time for each task performed by an individual or a group of individuals. That calculation when related to output of different stages reveals operational bottlenecks (OBs). OBs are the points in an operation that restrict maximum output of a process.¹

For example, if output of sandwiches in a kitchen is blocked at the point of packing, then packing becomes an OB. We have to streamline the operation either by employing more packers or utilizing the service of those who are underutilized. In other words, through blueprinting, we can identify the points of over- and underutilization and hence make adjustments to streamline the process.

When we remove the OB at the point of packing, we increase our overall output. Dividing the total cost of production by increased output, we can see the cost per sandwich decline. By doing this, we, on the one hand, cut costs and, on the other, improve productivity. Service blueprinting therefore becomes a good base for working out the optimal efficiency and productivity.

Considerations for a complete blueprint

For the sake of completeness, we must ask ourselves certain questions and keep the process of blueprinting comprehensive. Toward that, we must consider the following.²

1. We must be clear about the *process to be mapped* and why we map it? Where does it begin and end? Are we mapping just one component or the entire service? The focus must be on customer. We must also know the touch points or interactions within and among various departments.
2. We must be clear about the *segment* that we are dealing with. Every segment has its requirements in terms of service delivery and therefore only one segment should be portrayed, that is, just one service and one segment on the blueprint. We must avoid blueprinting the in-house service and the direct delivery service offered by a restaurant. These are two different processes with their own relevant dynamics.
3. It is a *team effort* and everyone who matters across departments should be involved. It therefore is a multi-departmental exercise and not a task assigned to one individual or a section that may operate in isolation.
4. We must always map a design that is close to the *desired level of service*, meaning even if it requires more human resource and a longer sequence of service we should consider doing that. Likewise if a change becomes desirable in an existing process, we should be ready to incorporate that into the blueprint.
5. It may not be a bad idea to blueprint the *possible fail points* and incorporate the same in the process as a recovery exercise, whenever need be.
6. The blueprint ideally should contain *all the details* of the process unless it is being used in the concept development stage.

Benefits of blueprinting

If given proper considerations, a blueprint can offer us the following benefits.³

1. All personnel involved in the process can see their roles and relationships as part of an integrated effort.
2. It identifies possible fail points and as such companies can incorporate recovery strategies into the blueprint thus making it a well designed program of recovery.
3. It also identifies all those points where customers experience quality and as such can be stressed in terms of internal marketing for staff training.
4. Line of visibility makes it a conscious effort on part of the company to decide what customers should see and what they should not see.
5. Line of internal interaction and encounters makes the job of describing jobs easy and fruitful, not leaving anything to imagination and vagueness.
6. It kick-starts strategic discussion on all procedures by involving everyone excluding chances of omissions and also making it realistic for everyone to realize and appreciate roles and contributions of others.
7. It becomes the basis of assessing costs, revenues, and capital expenditure. Different tasks are representations of all fundamental financial elements.
8. It becomes the basis of both internal and external marketing.
9. It facilitates top-down and bottom-up communication, thus improving quality of delivery through interaction of all kinds, not only procedural but also philosophical in terms of discussions on improved features.
10. It helps to balance output of various personnel. It indicates points where people are either over- or under-worked.

Summary

We have built on our understanding of a blueprinting exercise by getting into the areas of efficiency and productivity. Good and effectively comprehensive blueprints let companies achieve the objectives of high efficiency and productivity. Companies, however, have to seriously consider the requisites for developing the right blueprints. Once developed, the benefits become apparent as mentioned in the lecture.

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1. Kenneth E. Clow and David L. Kurtz, “Services Marketing – Operation, Management, and Strategy”, 2e; Biztantra (116-117)
2. Valarie A. Zeithaml and Mary Jo Bitner, “Services Marketing – Integrating Customer Focus Across The Firm”, 3rd edition; McGraw Hill (242)
3. Ibid (239)

SERVICES MARKETING**Introduction**

The lecture gives us insights into understanding what an operational position is and why is it important to opt for one!

Establishing an Operational Position

Just like we establish an operational position in manufacturing, we need to be clear about our position in services as well. In tangible goods, manufacturers have the inherent feature of producing before consumption takes place and, therefore, can produce in a way that lowers production and unit costs thereby achieving mass production and economies of scale. Production can take the position of unit production, batch production, mass production, or continuous process¹.

Services do not enjoy that kind of lapse between production and consumption and hence acquire the character of being inseparable; production and consumption take place at the same time and therefore do not offer the providers with the opportunity of achieving efficiencies based on mass production and lower unit costs etc.

Although the production techniques of manufacturing cannot be applied to services, we still can benefit from the concepts that underlie those techniques. For services, we have three different positions to choose from and emphasize. These positions are the following:²

- Cost efficiency
- Customization
- Service quality

Emphasis on one does not mean that we lessen our concentration on the other two. We must maintain competitive parity on those two, while we excel in the one that we choose as our prime position.

Cost efficiency refers to industrializing the procedure for high efficiency. This is an approach that providers take to control costs and attempt to keep them lower than that of competitors. This approach becomes mandatory when high volumes are offered. Industrializing helps doing things right the first time, which saves costs, time, and money.

Customization is an approach that lets providers customize the design of their services as per customers' needs. This approach lets them fulfill heterogeneous needs of their customers within the same segment. If a provider happens to be in an industry characterized by varied nature of products like consultancies, then the position of customization becomes inevitable and the provider must strive to excel in offering services on a high merit of both technical and functional aspects. Costs can be high in such situations.

Service Quality is an approach which stresses very high quality of service. Providers adopt this approach in an attempt to out-compete their competitors. Superior quality can be represented either by the technical aspects of service or the functional dimensions of responsiveness, adaptability, spontaneity, assurance, and empathy on part of the providers.

Every company should opt for an operational position reflecting its expertise emphasizing the area of its specialization. To bring that position to life, all procedures must be designed keeping the position as the focal point for customer service. A company like McDonalds has specialized in industrializing the process of burger making and delivering so efficiently and effectively that anybody has the strongest conviction of getting the same burger in Lahore, London, or Los Angeles. Subway, on the other hand, specializes in

customizing its customers' sandwiches according to their taste. The customization takes place in light of subtle variations of ingredients that lie right in front of the customer, thus addressing the factor of heterogeneity effectively.

Both the companies in the above examples highlight particular areas of their specialization. At the same time, both attempt to be cost efficient and quality conscious. Not opting for an operational position may keep a company from highlighting its area of strength. The accompanying figure 45 depicts scenarios reflecting the above discussion.

It is obvious from the figure that there is one company that has opted for the “cost efficiency” position, two that have chosen “service quality” position (one in technical and the other in functional area), and none seem to be opting for the position of “customization”. We do see four companies sitting in the middle of the triangle not opting for any position. These companies cannot be without any specialization and, therefore, should opt for a position that may be a reflection of what operationally suit them the best.

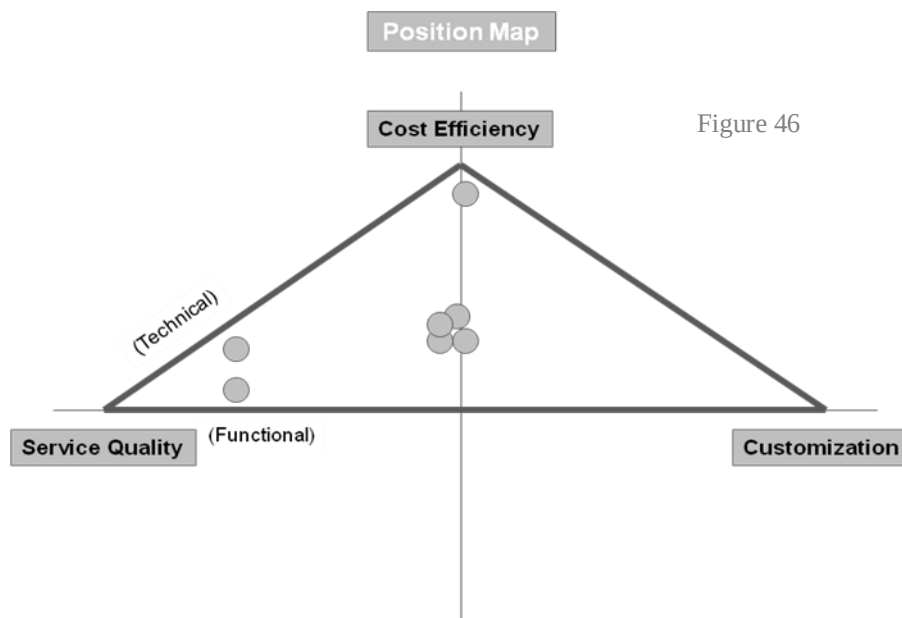


Figure 46

Kenneth E. Clow and David L. Kurtz, "Services Marketing, 2e – Operation Management, and Strategy"; Biztantra (115)

Complexity and Divergence

We should also be aware of another concept of the operational process in terms of its complexity and divergence. *Complexity refers to the number of steps and the sequence involved in executing those steps. Divergence refers to the variability and the latitude involved in executing the service.*³

A large number of steps make the design more complex and a small number of steps keep it less complex.

Divergence allows sellers the opportunity to offer a service in more than one way and hence options for its execution. More options means a service is high on divergence. Less options on divergence means there is only one way to perform the service.

A fast food service is low both on complexity and divergence; a consulting service is high both on complexity and divergence. The factors of complexity and divergence have to correspond with the operational position a company opts for. This phenomenon can be explained with the help of a matrix.

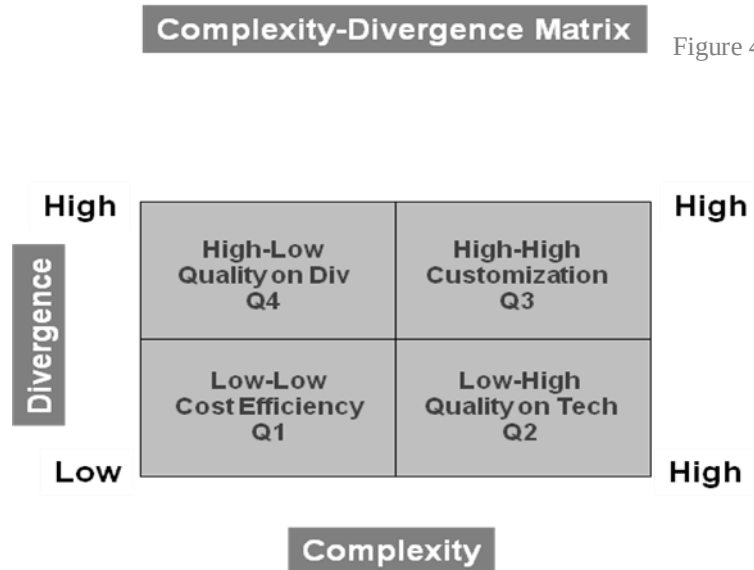


Figure 46

Four quadrants reflect the complexity-divergence relationship. Different businesses fall somewhere within these four quadrants. Clarity on the intensity of complexity and the level of divergence gained through blueprinting makes any business specify the quadrant it belongs to. This matrix can be further detailed in terms of the accompanying chart as figure 47, which explodes a few businesses in terms of their complexity and divergence in relation to their operational position.

Figure 47

Complexity-Divergence Matrix			
Industry	Complexity	Divergence	Operational position
Fast Food; Retail Banking	Low	Low	Cost Efficiency
Teachers; Beauticians; Musicians	Low	High	Service Quality (Functional Dimensions)
Mobile Phones; Hotels; Logistics; Motor Car Garage; Cable Operators; Motorbike Rental	High	Low	Service Quality (Technical Aspects)
Consultancies	High	High	Customization

Adapted from Kenneth E. Clow and David L. Kurtz, "Services Marketing, 2e – Operation, Management, and Strategy", Biztantra (121)

Summary

Every service set up should opt for an operational position. There are three positions to choose from. Opting for one does not mean companies abandon the essence of the remaining two. They have to be good at all of them to be competitive and then sustain the competitive advantage. However, one position has to be the reflection of what the company does the best and in a differentiated manner from the rest of the competitive crowd.

The concepts of complexity and divergence also have to be appreciated by the sellers in order for them to be very clearly relating their essence with the operational position. There has to be a logical relationship among the three dimensions of complexity, divergence, and the operational position.

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2. *Ibid* (114)
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SERVICES MARKETING**Introduction**

This lecture looks into the important elements of an operational position. Each service set up, regardless of the position, has to have goals that are fulfilled with identification of the relevant location, the right layout, and a specific job design. We shall learn these elements in relation to the three operational positions. Only by taking coherent steps toward these elements can a company bring its operational position (OP) to life.

The OP is supported by the BP that provides us with a wonderful platform to start working on the four elements of ¹

- Goals
- Facility location
- Facility layout, and
- Job design

The elements require complete correspondence to the essence of the position taken. Or, in other words, we can say that these elements be translated from the position they represent. The operational elements that have a better fit with the position of “Cost Efficiency” should not be put together if we have opted for “Customization” and vice versa.

Cost Efficiency Operational Position:**Goals**

The main goal is to achieve high efficiency and productivity. Companies need high volumes that offer a platform from where they work to maximize both. Companies look for operational bottlenecks and try to remove those with a very astute design. Following techniques are employed:

- automation,
- high standardization, and
- job specialization

Facility Location

The location is identified in line with the operational goals and hence must offer the opportunity to generate volumes and lower the unit cost for productivity. If the line of business allows, one may as well keep above the *line of visibility* operations at such a location and the *support component* elsewhere (a cheaper place). This kind of arrangement must not compromise the fundamentals of efficient supply chain and good financial sense. The concept is well exemplified by bakeries and coffee shops! Both type of operations have their show rooms and kitchens at places far apart for the purpose of achieving cost efficiencies.

Facility Layout

The layout should also be designed in line with the main goal of efficiency and productivity. The onstage component should have a design that can maximize the number of customers served, whereas the support component should be industrialized in a way that it maximizes productivity of workers and control costs.

Job Design

The foremost objective again is to be efficient and productive. Companies try to minimize the contact component by making it less complex for efficiency while they work hard to maximize the support functions. The idea is to minimize the complexity at the point of interaction with customers.

This thinking leads to the concept of self-service at fast food, ATMs at banks, and computerized systems at travel services. All the supports lead to high efficiency, consistent quality, and controlled costs. It is easier to maximize the support function than to do the same on the contact side because of customer involvement.

Division of labor, job specialization, and cross-training of employees are some of the popular techniques employed by providers while they design jobs.

If a company is in hybrid services like fast food, it may like to go into batch production by producing sandwiches in advance and keep them in warming bins. It may also get into component purchasing or outsourcing parts of the production process to an outside vendor, if it is more economical.

Customization Operational Position

It is high on both complexity and divergence. Professional services on the legal, medical, and engineering side are located in this area.

Goals

The main goal is to be able to satisfy individual customers by customizing the service as they require. The productivity therefore at the customer interaction level is not an objective. Costs become secondary.

Facility Location and Layout

Location is important, but not really critical. The layout of the facility is important in that the customer component and the support component are difficult to separate. Mostly professionals, they all have to be at the same place. The layout should, however, emphasize prestige.

Job Design

In terms of functions, professionals need to be bifurcated. Some of them have to be highly people-oriented to maximize the impact on customers during interactions. Those who are part of the support component must be very productive to gain cost advantages, which generally are difficult to gain, for the process does not offer industrialization of the procedure.

Service Quality Operational Position

Goals

The goals, as is obvious, have to stem from the position taken – technical quality or functional dimensions. If technical quality is opted for, then the goal is outcome and productivity. In other words, the process will be under the emphasis of complexity with low divergence. For example, an insurance company may like to have the goals of streamlining its processes for a quick reimbursement of claims.

If functional position is taken, then the goal is more toward the customization side and emphasizes quality interaction with customers. As an example, another insurance company may like to specialize in relationship marketing with emphasis on customer contact and one-to-one relationship. Still another may emphasize on the diversity of their service products like agriculture insurance and livestock

insurance (in addition to the traditional services) thereby counting on customization. This will prompt customers to develop with the company relationships to educate themselves on the diversity of service.

Location and layout

The location must reflect image in either of the case. The layout will be similar to that of “Cost efficiency” in case of technical outcome. It will be that of “Customization” if the emphasis is on interaction.

Job Design

Logically, technical position will minimize the customer contact component. If the position is functional, then the goal will be to enhance the customer contact component.

Job specialization is the most important denominator of the quality-position job design. In bigger organizations, however, cross-training, computerization, and automation also figure prominently. 

Whatever is the position, there are a couple of fundamentals to be followed. Regardless of the goal orientation, a technical position should strive for cost efficiencies. A technical orientation may emerge from a service quality position or cost efficiency. A functional orientation may emerge from service quality position or customization; it should always require improvement of productivity in order to control costs in the absence of an industrialized process.

On the technical side, industrialization can be achieved by having workers (of not very high skills) do their jobs through techniques like division of labor and specialization of tasks. In the case of functional position, productivity can be enhanced by supporting front line contact personnel with vital information processing technology.

Role of Service Personnel in Service Design

Customer contact personnel and support personnel are two important component of the overall design. They play an extremely significant role toward service design and delivery.²

Whereas contact personnel have to be good at people skills along with knowledge of their core jobs, the support component has to be good at least at their core jobs. Contact personnel have to positively influence customers toward satisfaction, while they get support from the support staff. The functional integration of the two has to be excellent, for it reflects the inseparability of the two functions of marketing and operations.

Retention of personnel

The ability of a company to retain good staff is a challenging job. If personnel are not treated properly as human capital and rather as parts of the process that will go on in any way, then people may not feel motivated to stick with the company.³ Retaining staff is as important as retaining customers; staff turnover causes costs to soar. First, replacements may cost more, and second, they take time in making a smooth transition and ensuring the system keeps working efficiently to the satisfaction of customers.

Any hiccups cause escalation of costs and a possible loss of workers. Good workers when leave take with them some good customers. Besides costs, it is disruption of productivity which is a goal for all the positions of operations, in varying degrees though!

Summary

There are four elements of an operational position – goals, facility location, facility layout, and job design. The emergence of all these owe to the OP. Clarity of the operational position has a reflection in these elements, which must be logically and rationally put together to bring the OP to life.

Bibliography

1. Kenneth E. Clow and David L. Kurtz, “Services Marketing – Operation, Management, and Strategy”, 2e; Biztantra (121-131)
2. Ibid (141)
3. Ibid (141)

SERVICES MARKETING**Introduction**

This lecture basically is an exercise in understanding the components of tasks and job design skills. Such skills are important for managers to have who design jobs. You will see that job design has strong bearings on the process flows, blueprinting, and organizational structures.

Services are labor intensive and we know the importance of the role of people. Because of the tremendous impact on organizations, internal marketing takes on an added importance necessitating training as per complexity and divergence. We also know there are two different groups within the organizations; onstage and backstage components; onstage interact with customers while backstage support them and give the outcome.

The question here is how do we deal with the job design keeping in view the people factor? The answer lies in drawing the process as a blueprint (BP) and look into the tasks and division of tasks for designing different jobs.

Job Design Process

Job design is the first step toward the organizational design. Through this process managers decide how to divide different tasks into jobs. Not only they come up with the integrated process that lets them define each and every job, they also develop job descriptions and the organization design. Collection of all descriptions reflects the description of total jobs to be performed by the organization, along with a web of relationships among all of them.

Figure 48 is a depiction of tasks divided into jobs. Task A consists of four jobs, while task B has two jobs as its components. Toward a job design process, the company has defined four major steps of receiving cash, preparing sandwiches, packing them, and then handing them over. Task A is about cash handling and preparation of the ordered sandwiches, while task B is centered on packing and delivery. All jobs require one person each, except preparation that takes three persons to complete the job. After preparation, one person is adequate to manage the output from the preparation step of the process to packing. Similarly, one person is required to handover the finished product to the customer. We have seen from this presentation not only division of tasks into jobs, but also number of people to efficiently follow the process for a balanced input-output relationship, thus working out the strength of staff required to complete the task. We can get into other related elements like developing job descriptions to working out costs involved for maintaining staff. The whole exercise can be looked upon as one small part of the BP.

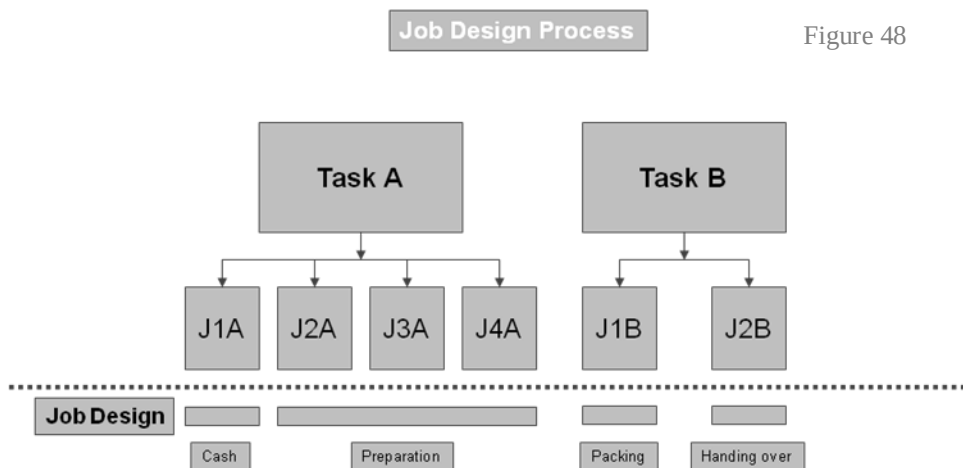


Figure 48

Job design options

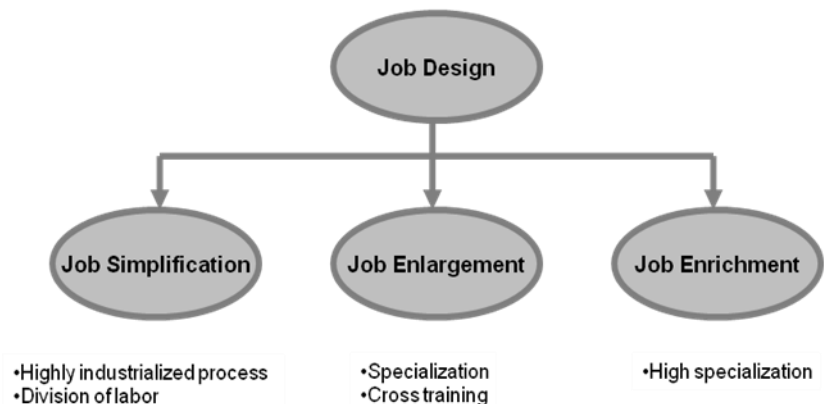
In relation to the design there are certain techniques to follow like¹

- Division of labor
- Specialization
- Cross Training

Job Design Options

Figure 49

These techniques form design options, which we can exercise keeping in view our OP. These could be better understood with the help of figure 49, which should be viewed in continuation of the previous figure 48. The techniques of division of labor, specialization, and cross training can be better appreciated with the understanding of the three important components of job simplification, job enlargement, and job enrichment.



Simplification through division of labor

The importance of personnel also has to be viewed a little more analytically in light of the techniques and concepts of division of labor, specialization, and cross training. Division of labor is grouping of similar jobs into related tasks. The objective remains that of high coordination, smooth working, and therefore high efficiency. McDonald's exemplifies this concept comprehensively. The tasks associated with chef and food server are split into different jobs for the sake of efficiency. As part of their job design, each employee is given fewer tasks so that s(he) can become more efficient and productive in an industrialized process.

Within the groups put together by applying the concept of division of labor, companies try to simplify the tasks, make them less complex and less divergent. But, they do not stretch the concept of simplification too far. Appropriate division of labor lets them go ahead with a proper job design and organizational design. This division of labor shows itself on the BP, which allows companies to develop the job design, job content, and job relationships. Another benefit, in addition to simplification of the process, it offers is that of the choice that they have to either enlarge or enrich a job, in relation to the OP.

Job enlargement

It is characterized by enlarging the steps and hence jobs as part of one job design, thereby giving employees added responsibility to perform. This adds to their importance and satisfaction. Subway (the cold sandwich chain) exemplifies this concept. Owing to customization of sandwiches as mentioned earlier, Subway has one person who performs all the steps of preparation of sandwiches to the heterogeneous taste of its customers. There is no division of labor among the people who make the sandwiches, wrap the sandwiches, give them to customers, and take the money. The role of chef and food server is combined into one.²

Job enrichment

It is expanding the scope and degree of responsibility of one's job³. This could be

- Empowering workers to experiment new ways to perform the tasks
- Allowing employees to be flexible in responding to special situations using their judgment
- Developing special skills
- Allowing workers to monitor and measure their own performance against pre-established standards

The idea behind job enrichment is to increase employees' involvement and thus their interest in the service they provide. It is obvious that job enlargement and enrichment are more conducive to the organizational structures that are flexible and decentralized. This also has a logical correlation with customization.

Conversely, job simplification represents low complexity and low divergence and hence signifies a predictable and standardized behavior of task performance.

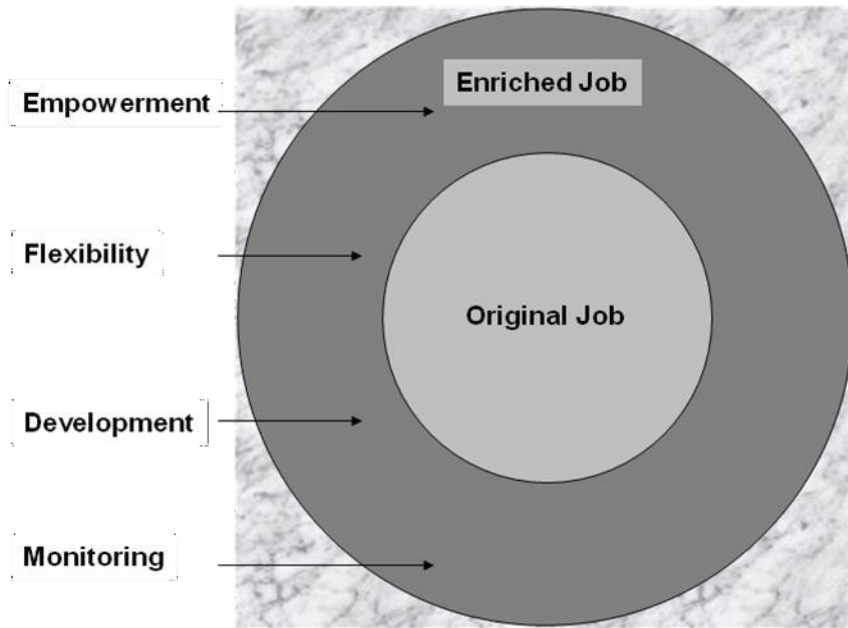
Figures 50 and 51 clearly exhibit the enlarged and enriched jobs. Please view figure 50 in continuation of figure 49 and see the difference between original job design and the enlarged job.

Please note that

these figures represent hypothetical situations only for the sake of our better understanding and do not represent any specific organizations.

Job Enrichment

Figure 50



Through the process of job design managers decide how to divide tasks into specific jobs. They also decide where to enrich the job.

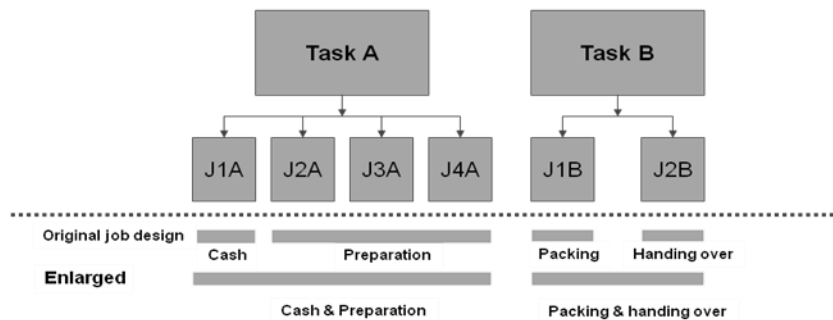
Job Characteristics

Job Enlargement

Figure 51

The basic responsibility of managers is to come up with a design that maximizes output, lower costs, and optimizes the working relationships. This can be achieved only if the right job design is in place. For the right design, following are certain motivational characteristics about the jobs that have to be considered to make any job purposeful⁴.

1. Skill Variety
2. Task Identity
3. Task significance
4. Autonomy
5. Feedback



Through the process of job design managers decide how to divide tasks into specific jobs. They also decide where to enlarge the job.

Skill Variety: People responsible for customer contact have to have a variety of skills to be able to do many jobs if need be. Apart from the core knowledge they need to have good listening and speaking

skills. Since they are the front and visible organ of the organization, they need to exercise such skills more than their counterparts below the line of visibility or the support component. Their listening and speaking prowess matters in cases of complaint registration and staging recovery strategies. Effective communication with clarity matters a lot in resolving matters with the help of their support component colleagues.

Another one is the ability of employees to empathize with the customers. This is an ability to identify with the feelings and thoughts of another person – employee or customer. The mere feeling on part of the customer that the employee is considerate and willing to solve his problem, no matter what the circumstances, brings satisfaction. An empathetic employee with good communication skills can be given an *enlarged job*.

Ability to deal with all kinds of customers – soft spoken, difficult, demanding, and even rude – is another variety of skills that can make a front-end employee very successful in dealing with all kinds of customers.

Since the support staff is meant to work in a way that reduces costs and increases efficiency and productivity in most of the cases, people should be working as specialists of their particular jobs. Job specialization therefore is an important pillar of people's role. However, to break monotony, people among such staff could be cross-trained and rotated for motivational purposes. This also highlights company's ability to surmount the challenge of inseparability. Another skill that can be motivational is enlargement of the job that makes people feel more important.

Task Identity: This is a condition that results in identifiable units of work and a specific outcome. In other words, if the outcome of a job cannot be defined, then it is considered low on identity and hence less fulfilling.

The job of a telephone receptionist falls into this category, which requires getting and passing on the information for delivery of a service. The job of an attendant at a call center meant to taking orders is just another description of a similar identity. The job of an on-line banker, however, is a little more fulfilling in that such bankers are in a position to pass on to the customer and share with him a certain level of meaningful information.

One way to overcome this limitation is to enlarge the job and make it high on identity. The implication for providers therefore is to look into different tasks and see which should be done by individuals as single tasks and which ones should be lumped to make those individuals motivated.

Summary

An understanding of the job design process brings refinement into operational capabilities of a company. Design options let companies decide which technique could best suit its goals and the operational position. Under different circumstances companies apply different techniques of job simplification, enlargement, and enrichment.

Bibliography

1. Gareth R. Jones, Jennifer M. George, and Charles W. L. Hill, "Contemporary Management", Irwin McGraw Hill (237)
2. Ibid (237)
3. Ibid (237)
4. Kenneth E. Clow and David L. Kurtz, "Services Marketing – Operation, Management, and Strategy", 2e; Biztantra (142-147)

SERVICES MARKETING

Introduction

This is a continuation of characteristics of jobs, which forms the basis of providers understanding toward job design and then coming up with the right standards. We shall look into the two fundamental types of standards – hard and soft.

Task Significance: The degree to which a worker may think his job has a definite impact on others, within and outside of the organization, forms task significance of the job. Jobs performed by contact personnel with high task identity carry high levels of significance. Workers having jobs with high significance seem to work harder in the belief that their input is more important.

While such jobs have the inherent character of keeping the jobholders motivated, it is the responsibility of the management to ensure that there are no failings on significant jobs; if failings occur, then the recovery is done efficiently.

Another implication may as well be to cross-train more people for significant jobs to ensure fail-safe strategies and their implementation.

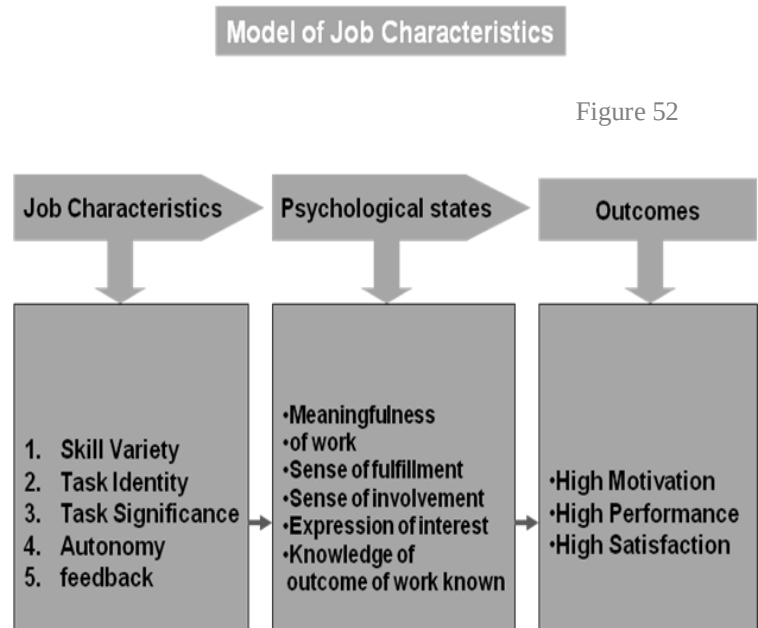
Autonomy: The degree of freedom and discretion one feels toward executing one's role is the level of autonomy one has. People like to have freedom of making decisions about work scheduling and determining their moves accordingly. This is possible only if their jobs are enriched.

Going by the operational position, it is clear that employees working for cost efficiency and productivity have little autonomy due to industrialization of the process. Conversely, employees working for functional quality and customization have greater autonomy of their roles.

It is the responsibility of management to see where they can enlarge jobs with autonomy so that employees can do their best to satisfy their customers!

Feedback: The degree of direct information an employee receives from his superiors about his performance on the job forms this characteristic. Management must not wait to start talking about performances only when they have a complaint or there is a need to stage recovery strategies. Performance feedback should be made a regular feature for employees to know how they are doing! This helps realistic communication to take place for the betterment of service and customer satisfaction.

Figure 52 summarizes the essence of job characteristics. The five characteristics lead, in different situations and at different jobs, to meaningful psychological states that are positive in nature. This positivity results in three important outcomes of motivation, performance, and satisfaction of high levels.



Gareth Jones, Jennifer George, and Charles Hill, "Contemporary Management", Irwin McGraw Hill (238)

Service Standards

After expectations have been understood and service design is well captured by considering all the steps of the strategic process, the next challenge for the providers is to come up with the customer-defined standards. All those well-defined behaviors and actions on part of the providers that better equip them to deliver the service in a standardized manner to the benefit of customers as well as organizations are known as standards.

Challenges to set standards

The challenge for such standards stems from the fact that standards defined by the organizations in terms of cost efficiency and productivity may not be adequate for the customers to be satisfied, for those are established from a typical commercial point of view in which the company is the dominant factor and not the customer.¹

Another reason for the lack of customer-defined standards is the fact that functional integration of marketing and operations does not take place in the true inseparable sense.² Working in an inseparable manner that requires performance of the two functions at the same time by people from two different functions of marketing and operations is a challenge that not many organizations meet easily. Therefore, employees find it a deviation from what they are accustomed to working. A change becomes difficult to stage.

Also for the fact that many managers look upon services from a customization standpoint, they think it is not practical to have standards for services – they may have a point when it comes to accounting, tax, management, and a few other types of consultancies. The fact remains that even services demanding high customization may offer an opportunity to standardize certain portions of it only to come up with behaviors and actions needed to satisfy customers.³

Such managers also argue that setting standards compromises employee empowerment; in the absence of which they feel constrained to perform a service with extra responsiveness and empathy.

Proponents of the standards argue that standards should not make a service unnecessarily rigid to perform, losing its essence in terms of quality dimensions of reliability, responsiveness, assurance, empathy, and tangibles. All good companies need such standards. By setting routines to different steps, they know exactly how long it takes to deliver and complete a transaction, to identify failures, and to fix complaints. By having such standards they develop certain measures against which customers can evaluate them.

Types of standards

There are two types of standards - hard and soft.⁴

Hard standards

Those standards that are quantifiable and can be counted in terms of time and audit are “hard standards”. For example, a good company will ensure to do the service right the first time (*as a standard*) or deliver within a specified time (*as a standard*) to establish reliability. It will also specify response time to attend to a complaint and prove its responsiveness.

Soft standards

These standards are translated from customers’ perceptions of quality attributes and lead providers to define behaviors and actions in light of those attributes. These are basically values that stress dimensions of quality that are abstract in nature. Professing to be reliable and responsive is abstract in nature. If a hard standard of service outcome of a car repair can be audited at the end of the service (tune-up, brakes check-up, oil change, and other mechanical and electronic features), it is hard to

measure the standard of courteousness and assurance (soft standards) demonstrated by the company staff.

In short, standards that are ascertained only on the basis of customers' perception of satisfaction are "soft standards". These cannot be counted or audited. The only way out is to talk with customers to find out their perceptions. One of the best ways of determining perceptions is to use SERVQUAL method of marketing research. The soft sides of standards deal with things that are abstract in nature and do not offer us the opportunity to measure them numerically, unless we adopt an approach like SERVQUAL and Trailer calls.

Summary

An understanding of job characteristics is important to come up with the right design. Unless, we have the right design, we cannot establish the right standards. Standards are of two types – hard and soft. Hard ones are established with supports like counting and auditing; soft ones emerge from customers' perceptions. Hard to measure, such standards can only be revealed and established by talking with customers. For that, we may refer to SERVQUAL.

Bibliography:

1. Valarie A. Zeithaml and Mary Jo Bitner, "*Services Marketing – Integrating Customer Focus Across The Firm*", 3rd edition; McGraw Hill (255)
2. *Ibid* (252)
3. *Ibid* (253)
4. *Ibid* (256-270)

SERVICES MARKETING**Introduction**

Since values and value systems play a prominent role in laying standards, an understanding of what values and value systems are is important for providers to appreciate. The lecture is devoted to developing standards from customers' standpoint.

Values

Values are beliefs or ideas about certain goals members of a society should pursue. These are also about the modes of behavior one should adopt to achieve the goals. In the corporate sense, values could be all those beliefs that an organization may think should be pursued in line with its strategic thinking. One organization may have the values of being highly creative and innovative, while another may think it should be very conservative in having its people make decisions. The values therefore could be hard work, ambition, honesty, integrity, creativity, innovation, and good service orientation.

Founder's and Top management's Role

Top managers adopt values and then encourage others to cultivate the same; this leads to developing a culture of the organization. Such a culture is a reflection of values that are best suited to their environment, strategy, and technology. McDonald's has its values as quality, service, cleanliness, and value for money.

It is extremely important that the founder of the business has good and positive values. He should not only profess those, but practically implement them to show his belief. The top management that is not too much concerned about the after sales service once the original service is sold should not expect its employees to be good at after sales, for they do not have those values.

Value system

It is a set of guiding principles meant for running organizations. Such systems are primarily brought into existence by the top man or managers. The values harbored by the founder are extremely important in having the system established in place. Whatever he thinks is shared by those who are hired by him and the chain continues into becoming a culture of the organization. If a company keeps reliability close to its core values, then obviously the behaviors demonstrated by providers will tantamount to proving they are reliable. All behaviors and actions undertaken to prove reliability can be translated into some kind of standards.

Examples of values

A company emphasizing cleanliness of its facilities will demonstrate its employees' efforts to keep the facilities clean at all times resulting in establishing standards of cleanliness.

Another company having conviction in being responsive will exhibit in the first place doing things right the first time and then fixing the problem with the least of bureaucracy, should there be need for recovery thereby proving its value of responsiveness.

A company believing in courtesy will have his managers demonstrate good manners in physical and remote encounters. The importance a company attaches to its values becomes the determinant of quality standards. *The beauty of such standards lies in their being defined as good standards by customers.*

As mentioned earlier, with the help of SERVQUAL and Trailer Calls that take place very close to finishing the transaction we can ascertain many behaviors and actions of employees. Trailer calls can be administered in many different ways. Company initiated telephone calls, offering a 0800 toll-free number, mailing postcards, company-offered comment cards all are meant to assure certain soft standards of service established by the company. Recording of calls for "quality purposes" take place only to check the responsiveness and recovery

abilities of employees to bring about an improvement in standards. Following are some of the specific examples of hard vs. soft standards.¹

Hard Standards	Soft Standards
• No. of sandwiches made • No. of rejections • No. of sandwiches delivered direct • No. of sandwiches delivered through drive-thru window • How many deliveries were on time • How many deliveries were without any mistakes • How many photographs were developed on time The most important element of establishing standards is coming up with a “Service Quality Index” (SQI) that falls on technical quality merits. The index is a list of customer-defined attributes. Such attributes can be easily envisioned by providers. However, providers can always get into research to reveal in a comprehensive way what exactly should be included into the list. Customer complaints and the need to recover those keep adding to the attributes that must be included among those serving as the SQI.²	• Understands customer’s requests. • Is courteous on the phone. • Don’t put customers on the hold. • Ability to understand the problem and answer questions to satisfy customers. • Has communication skills • Resolves problems at first contact. The important element is carrying out of research by two popular ways – SERVQUAL and Trailer Calls. The two can easily reveal customers’ perceptions of soft standards that fall on functional quality merits. Exercise: It may not be a bad idea for you to come up with “Hard” and “Soft” standards relating any businesses that you may be interested in or think of.

Developing Customer-Defined Standards³

1. *Identify the desired encounter sequence.* Use BP. It will tell you the encounter sequence. Look at it from customer’s preferred steps.
2. *Translate absolute and abstract customer expectations into behaviors and actions.* Those expectations that can be operationally measured are translated as hard standards. Abstract expectations can be determined through research, but must be met with concrete behaviors and actions.
3. *Review standards as a check list.* Whether hard or soft, the standards must be the ones that
 - Complete a sequence, improve it and recover it.
 - Keep customers importance as paramount.
 - Maintain the delivery process as approved by the customers.
 - Are fully understood and accepted by the employees as challenges and not stumbling blocks. Unnecessarily challenging standards will de-motivate employees, who may exhibit resistance, resentment, absenteeism, and even turnover for not believing in them.
 - Are predictive and not reactive. Rather than waiting for customers and make their input as reactions to certain situations, follow the research process and find out the sources of satisfaction along with what dissatisfies them.
4. *Establish target levels and track targets.* To vigorously pursue implementation of standards, establish targets for achieving those standards.

5. *Develop feedback mechanism for measurement of standards.* Hard standards involve mechanical counts or technology-based measurements of time and error etc. Soft standards should involve perceptual measurement with the help of SERVQUAL and trailer calls etc. Measure standards and send feedback to keep employees motivated. SQI is the best guide.
6. *Periodically update targets and measures.* Improve SQI with changing customer expectations. Most companies start with identifying those standards that are critical and use them to drive the companies. Three points are to be remembered:
 - Understand the most important requirements of customers. 
 - Link these requirements to measurable mechanism of the service.
 - Use the feedback to identify service problems and improve them.

Summary

Companies must subscribe to a set of positive values for the benefit of both customers and themselves. A value system that represents both technical and functional side of the service should be created and subscribed to by the top management before anyone else. The effects of such a subscription will automatically trickle down the line and have every one imbibe good values. This representation gets translated into hard and soft standards. Standards have to be developed with focus on the customer, whose perceptions should lay the basis for standards defined by the company.

Bibliography:

1. Valarie A. Zeithaml and Mary Jo Bitner, “Services Marketing – Integrating Customer Focus Across The Firm”, 3rd edition; McGraw Hill (270)
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3. Ibid (271-276)

SERVICES MARKETING**Introduction**

There are three important areas that we need to learn to close gap 2. We have learnt two of those already, namely, service design and standards. This lecture attempts to throw light on the third one, which is physical evidence (PE).

Importance of physical evidence (PE)

The role of physical evidence in formation of expectations of customers and perceptions of staff as well can be hardly emphasized. We also know that physical evidence is needed by services sellers to support the intangible side of services. This is the place where customers evaluate the service during and after the purchase. Therefore, convincing evidence is important to close gap 2.

The nature of evidence that supports a service can convincingly alter customers' and employees' responses and behaviors to either the benefit or the detriment of the service. What PE is, what are the different types, the complexities involved, different roles it plays, how it affects the behavior of both customers and employees, and what strategic steps should sellers take in coming up with the right PE are some of the issues that we need to learn.

An appropriate understanding of these issues will help us in coming up with the right marketing strategy of which the PE is a constituent. It is important that we develop this constituent in line with the nature and positioning of our service for an effective marketing strategy.

What is physical evidence?

Physical evidence is the environment in which the service is delivered and where the firm and the customer interact, and any tangible commodities that facilitate performance or communication of the service.¹ The elements of physical evidence are broadly categorized as

- Exterior of the facility (exterior design, signage, parking, landscaping, and surrounding environment etc.)
- Interior of the facility (design, layout, signage, furniture and equipment, air quality and ambient temperature etc.)
- Other tangibles (business cards, stationery, billing statements, reports, employees' dress, uniforms, brochures, web pages, and virtual servicescape etc.)

Actually, PE is much more than a collection of different elements. The whole is much greater than the sum total of all the parts put together. This implies that if PE is created appropriately, which positions the service the way it is intended, then it can create a great impact on the customers.

The impact that PE creates is that²

- It communicates service attributes.
- It sets customer expectations.
- It creates customer experience.
- It satisfies customers.
- It enhances quality perception of customers.

Depending on the industry, sellers come up with the right kind of evidence that is attractive and competitive. Some industries depend heavily on the evidence, whereas for some it is not very elaborate.

The challenge for the providers is to come up with PE that supports the needs both of the customers and employees as well. Not only for attracting customers, Sellers do need nice working environments for keeping employees motivated and productive. They therefore need to look into the environmental psychology which reveals relationships of humans with the man-made environment.

Types of PE/Servicescapes

Depending on the nature of the service and the organizational goals, servicescapes are categorized as:³

- Remote
- Self-service
- Interpersonal

The three types play their respective roles in helping organizations fulfill their goals. However, they represent different levels of emphasis due basically to their being very different from each other.

A service remote in nature that does not really call for a direct interaction with customers does not need to have the kind of PE that “self-service” will warrant. The kind of PE an “interpersonal” service justifies is much more elaborate than the one required for “self-service” one.

Remote

The remote services like telecommunication, utilities, or credit card billing sections may be the ones hardly visited by customers. These therefore are lean PE not involving much complexity. These, however, should meet employees’ requirements for them to stay productive, efficient, and motivated. Hence, this evidence requires meeting organizational goals of keeping their employees satisfied from the working standpoint.

Self-service

The PE for a self-service set up is a little different and calls for attention to fulfilling *marketing goals* of the organization. The examples are ATMs, self-service petrol stations, billing drop box facilities where it is the customer who has to play an active role without much help from the providers.

The PE therefore should take into consideration customers’ comfort and the fact that their requirements are fulfilled and expectations met. The evidence moves from being simple to a little marketing-oriented signifying the need for fulfillment of the marketing goals of the organization.

Interpersonal

This form of PE calls for an elaborate set-up that fulfills the requirements of both customers as well as employees. The examples are hotels, banks, restaurants, hospitals, and

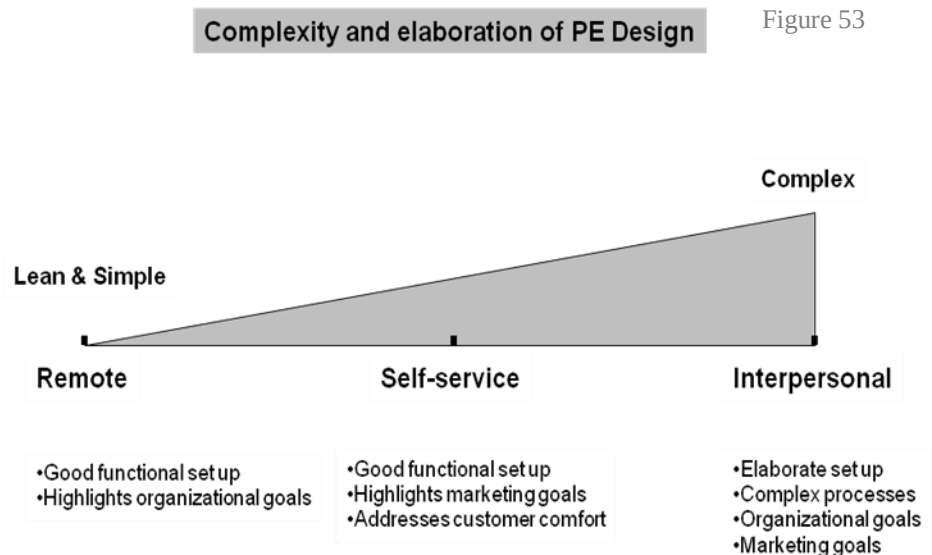


Figure 53

education institutions etc., where interaction between customers and employees take place to the experience and satisfaction of the customer. Apart from being elaborate, this PE could be very complex for involving not just steps of one but rather a combination of processes.

A hotel is an ideal example of having different services like restaurants, business centers, and that of grand wedding functions. The complexity of the combination of different areas involves developing PE compatible with the nature of such services. The PE must be designed to satisfy customers and facilitate working of the staff members.

We can say that more a service is interpersonal the greater is the need for having an elaborate PE that reflects fulfillment of customer needs and requirements of employees. Customers experience a good service while employees feel motivated and work more productively. Interpersonal, therefore, looks into customers as well as employees needs. Figure 53 is a representation of the types of PE.

Roles of PE/Servicescapes⁴

Package: Just like packaging of a tangible product reflects what is inside, the PE or the servicescape reflects the character of the organization. It is the outward appearance. The physical setting evokes a particular emotional reaction just like packaging does for a tangible good.

This outward appearance or the packaging role is important as an appeal to new customers or for service organizations that are new in the field. Good companies spend a lot of time and money on creating physical evidence in line with the positioning of their brand.

Facilitator: A well designed PE is a great facilitator of staff for performance of their activities and customers for their effective and friendly handling. It motivates employees and satisfies customers. It helps in marking lines and divisions and thus making it easy for all to play their scripts the way those are intended. Examples could be well designed fast food chains, airports, and banks etc.

At a bank customers can easily find their way to interact effectively with those responsible for cash transactions and those who are supposed to facilitate them relating other products. Just imagine if the staff were all mixed up!! Effective signage at an airport will make the traveling experience of any travelers pleasant and make the employees motivated.

Socializer: A good design also helps to make a place conducive for socializing. Good hotel lobbies and coffee shops that are in vogue nowadays are good examples. Existing customers attract new customers and the dimension of socializing lays the ground for loyalty.

Differentiator: The design of a facility can set it apart from the rest of the crowd and helps it position itself for the segment it targets. Customers categorize the place as per their perceptions. It helps the facility gain a competitive advantage. Actually, the more complex the design is the more possibilities it offers to create points of differentiation. A hotel has tremendous opportunities to offer its dining facilities in ways more than one if it offers food representing different cultures.

Effects of PE/Servicescapes on Behavior⁵

The type and quality of the evidence can have different kinds of impact on customers and employees behavior and it evokes multiple kinds of responses from them. The impact on behavior basically owes to the “*Stimulus-Organism-Response*” theory. According to this, the evidence or the servicescape is the stimulus; customers and employees organisms and their behavior to the stimulus are the responses. The better or grander the stimulus, the better appeal will it have to arouse different degrees of responses from both customers and employees. It is proven that people do respond more positively to a place that has a better design and carry acceptable aroma.

This is a fact of environmental psychology, according to which the behavior of individuals is influenced by the set up in which it occurs or it is a part of. According to environmental psychology, the relationship

between the servicescape (stimulus) and customers/employees (organisms) can be grouped as two sets of behavior – individual behaviors and social interactions.

Individual behaviors are displayed by two general, opposite forms – approach and avoidance. Approach behavior is a positive behavior that stimulates people to approach a facility, stay there, explore it, affiliate with it, spend money, and again come back there.

Avoidance behavior evokes negative feeling of avoidance, not to stay, explore, or spend at a facility they wish to avoid.

In addition to inviting or deterring entry into the servicescape, employees and customers also experience success of their plans at the servicescapes. Customers feel successful if they are satisfied at a place that offers them good service and is well designed.

Employees feel successful to see that the facility offers them good surroundings, equipment, and ambient conditions conducive for their productivity. They feel comfortable and satisfied. Employees, in other words, also like to stay there longer, affiliate and commit themselves to the place, and carry out their career plans.

Social Interactions between customers and employees also get impacted by the servicescape. It determines the duration of the interaction and a good design may also initiate the progression of events on a positive note, owing basically to well-designed facility, well-trained staff supported by equipment, and the ambience of the place.

The design also has its bearings on socialization among customers in a well designed setting. In a HAJJ set up, the nature of boarding and lodging arrangements, proximity of beds, routines to offer meals, and facilities for other rites create overall conditions of socializing opportunities.

Multiple Responses to the Servicescape

The responses that get evoked on part of customers are of three kinds – cognitive, emotional, and physiological. The combination of such responses forms their behavior.

Environment and Cognition: Cognition basically is the acquisition of knowledge through *perception, reasoning, and intuition*. Such acquisition becomes the basis of beliefs that people may develop when they are a part of a particular environment. They develop those beliefs about the people who serve them and the people they see there and hence come up with certain perceptions. Their perceptions let them differentiate one facility from another and hence categorize them. The job of managers, therefore, is to develop a servicescape that lets people form perceptions and cognition in line with the positioning of the service.

Environment and Emotions: In addition to beliefs about a place, servicescapes also evoke emotional responses that shape up people's behavior in relation to a set up. People experience the feelings of happiness, elation, excitement, relaxation, and lightheartedness at one place, whereas they may feel sad, gloomy, depressed, and distressed at another.

Environmental psychologists help us look into this phenomenon on two emotional dimensions – pleasure/displeasure and the degree of arousal, which basically is the level of stimulation and excitement. Figure 54 is a graphical presentation to better understand the phenomenon. If a servicescape is both pleasant and arousing, it is exciting; if it is both pleasant and non-arousing, then it is relaxing.

If the servicescape is unpleasant and arousing, then it is distressing; if it is unpleasant and non-arousing, then it is gloomy.

All the above is done with colors, music, décor, and all those elements that have a bearing on our emotions. The job of the managers is to come up with a set up that evokes emotions in line with the positioning of the service.

Environment and Physiology: The environment also has an impact on the physiological side of people. Too loud music, too much lighting, too ineffective air-conditioning, or too cramped seats can affect people in physiological ways by causing discomfort. The engineering designs that look

into this side of human comfort with the help of equipment or space design is known as “ergonomics”.

Good ergonomic designs help customers in positively assessing services and employees more productively delivering the services. The job of the managers is to design servicescapes that are ergonomically more in line with the positioning of the service, so that right physiological responses could be generated to the benefit of the customer as well as the organization.

Overall, different people respond to different environmental stimuli depending on their temporary moods, situations, and expectations. Managers must realize the forces that shape their responses and then come up with servicescapes acceptable to most of the target market segment.

Summary

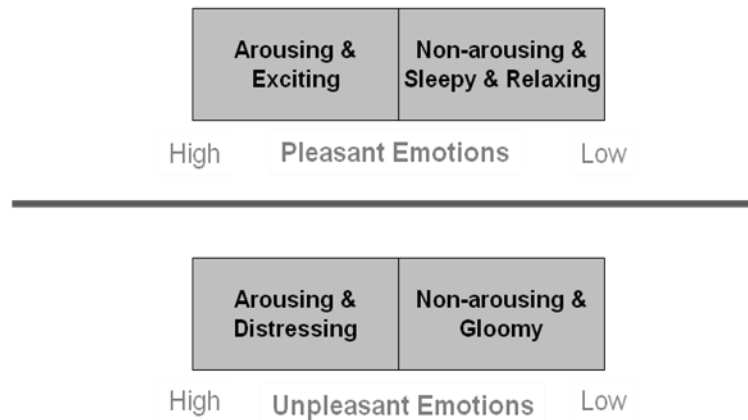
Physical evidence plays an important role in either attracting or distracting customers. The fundamental consideration should be to come up with physical evidence that truly represents service product’s positioning. An understanding of environmental psychology helps providers to design physical evidence accordingly.

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2. Ibid
3. Ibid (285-287)
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Environment and Emotions

Figure 54



SERVICES MARKETING**Introduction**

As part of environmental psychology, we need to understand the environmental dimensions that generate certain responses of cognition, emotions, and physiology. This lecture is an attempt toward learning those dimensions to enable ourselves to formulate the right physical evidence strategy.

Environmental Dimensions

It is due to these dimensions that people form certain behaviors and respond in a certain way. These are basically grouped as¹

- Ambient Conditions
- Spatial layout and Functionality
- Sign, Symbols, and Artifacts

Ambient conditions are the background characteristics of the environment like, colors, walls patterns, music, lighting, temperature, and scent etc. A good quality of these factors affect people's behavior in a positive way; for example, a scent compatible with the positioning of the service makes people stay a little longer and they make decisions in a rational way. If the case is otherwise, they like to rush away from the facility.

A soothing music, as research has revealed, works well on customers in a super market. They spend more time and money. Ambient conditions affect all the five senses and therefore should be given proper consideration of design.

Spatial layout and functionality is all about arrangement of equipment, furniture, and all elements that are put together for accomplishment of customers' and employees' goal. The arrangement should be done aesthetically and ergonomically to derive optimal benefit out of it.

Signs, symbols, and artifacts are put together to improve the functionality in terms of providing information, giving directions and even regulating social behavior.

Information signs represent different areas of a facility like you see in a super market, a bank, or a hospital. Directions represent signage to follow certain routes within a huge facility like a hospital and an airport. Symbols are also used to indicate things like no smoking and no honking etc., to let people behave in a particular manner. Artifacts can be added in the shape of artwork, certificates, and any elements that represent organizational values, heritage, or even cultural values of the area the facility happens to be at.

Overall, the important thing to remember is that people take a holistic view of all these dimensions as one positive or negative impact. In other words, all the dimensions create a holistic pattern of stimuli to which people respond. People respond in ways that are cognitive, emotional, and physiological. The implication lies in giving equal importance to all these dimensions to create the right stimuli and hence the responses and behavior in favor of our service.



Figure 55 clearly shows three levels of the Stimulus-Organism-Response theory at the grand-root of which we have “environmental dimensions” that generate environmental responses – cognitive, emotional, and physiological in nature. These responses, in turn, form behaviors of either “Approach” or “Avoidance”. The objective is to evoke a positive behavior of ‘Approach’ and attract customers to the facility, prove efficiency and friendliness with the objective of making customers stick with the company.

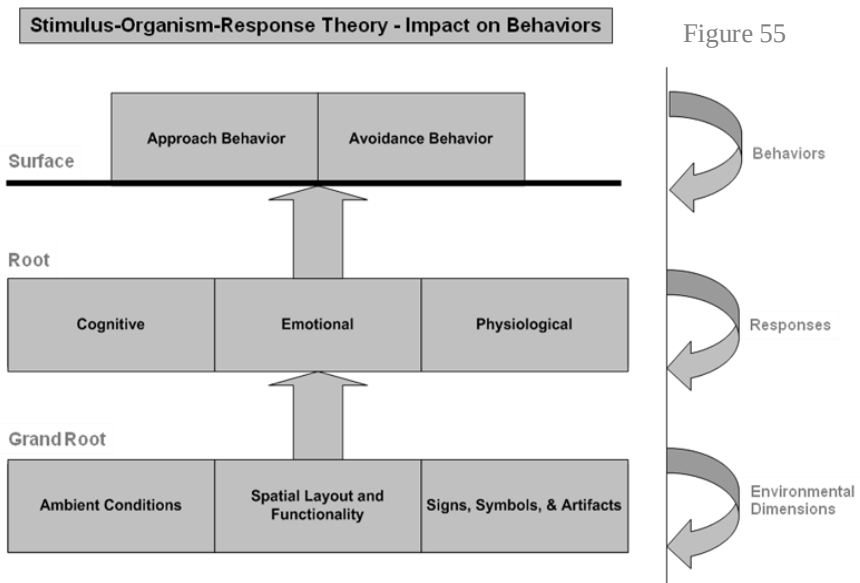


Figure 55

Physical Evidence Strategy

A step by step approach is taken to develop the physical evidence. The general guidelines are the following:²

Recognize the strategic impact of PE: As a first step we must acknowledge that the PE is going to help the company realize its strategic goals. This takes us back to the business strategy and lets us look at the vision, the mission, and the goals of the company in the light of which we form our strategic thinking on this dimension. The important elements of this dimension are customers, the service, and the target segment. Consideration of all these elements makes our effort complete and composite and enables us to come up with the right environmental dimensions.

Clarify roles of the servicescape: The step focuses the nature of the service (self-service, remote, or interpersonal) to determine how complex or simple the service is. Depending on where the service sits on the spectrum of complexity, the company should decide how complex the PE should be. An important consideration during this step is attention to the environmental dimensions and the emotions that the service seller wants evoked.

Map the physical evidence: This step implies creating a complete map of the evidence to be prepared and put in place. The map is a reflection of how simple and lean, or how complex and comprehensive the evidence should be. The map of a courier service will be less comprehensive than that of a hotel.

The map should look like a complete footprint of a house or an office establishment done by those who specialize both in architecture and interiors from a functional as well as aesthetics standpoint. The map, in other words, should show complete spatial layout and functionality of the servicescape. This is where we back to the blueprint and take a close look at all those points that need evidence. We explode these points into full blown maps and then have a complete picture of the process along with the details of evidence. Actual pictures, images, and videos may be inserted wherever necessary to present the map in its entirety to all those who matter in decision making.

Assess and identify opportunities: An extension of the previous step, this one requires looking into the mapping and see where the evidence can be beefed up. An example could be putting up a poster (evidence) about how to clean your teeth the right way at a dentist's outfit. This might carry some catchy pictures to substantiate the evidence.

Update and modernize the evidence: Whenever changes are made toward a redesign of a service, evidence should also undergo updating and modernization. Even in the absence of a redesign, time makes it necessary to go for changes. Changes revitalize the evidence thus giving customers and employees the feeling that the company is catching up with the changing times and trends. Different colors and graphics carry different meanings and it is here that you communicate with the non-verbal language to the liking and attraction of all.

Work cross-functionally: An important step, it calls for working across functional boundaries to have everyone's input. The objective is to send communication signals very consistently carrying an identical message that reflects service product's positioning and hence speak a language that customers understand and want communicated by the company.

Departments like HR, facilities management, operations, and marketing should all be on the same page to come up with designs whether about ambient conditions, spatial layouts, uniforms, or any other elements. Consistency is the name of the game and whether it is a ball point or graphics along an inside wall or stationery, they all must speak the same language by having identical colors and designs.

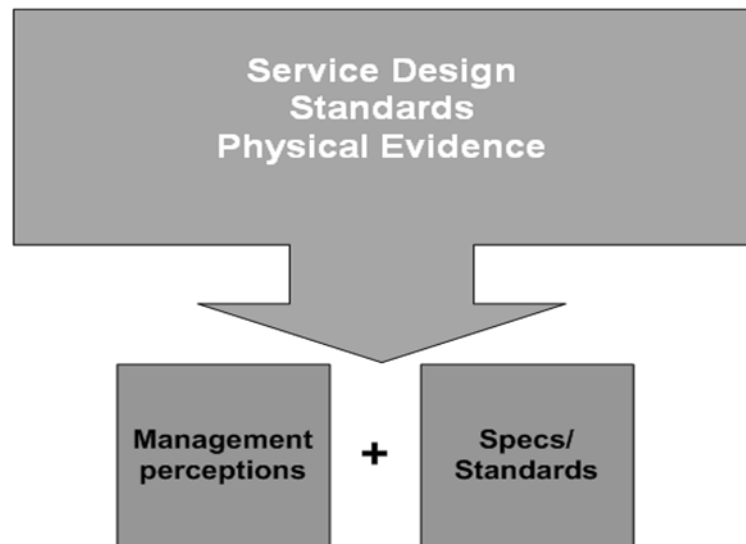
Summary

The learning focused on the importance of PE and how to manage the complexity involved into designing the appropriate PE. It basically is a function of the nature of service that dictates whether we should highlight the *organizational goals* as is the case in remote services, *marketing goals* as is the case in self-service set ups, or highlight both *organizational and marketing goals* as is the case in interpersonal services.

The level of elaboration and complexity is least at the remote end and increases as services move rightwards on the spectrum. Roles played by the PE should be viewed as packaging, facilitation, socializing, and differentiating for an appreciation the concept warrants. An important learning about the PE is its impact on behaviors – both of customers and employees. Depending on the quality of the PE, the behavior of approach or avoidance is determined by customers as well as employees. It, therefore should be planned extremely cautiously with deliberations so that it becomes an important part of the marketing strategy. This essentially implies designing *physical evidence* according to the positioning of the service and creating *standards* about *job design* and the *physical evidence* in a way that there is no over-promising or over-communication that may distort the service's expectation.

Strategic Direction to Close Gap 2

Figure 56



Having the right service design, standards, and the physical evidence, we are in a position to close gap 2, as is shown in figure 56.

Closing of Gap 3

We are now all set to start dealing with gap 3, which occurs due to discrepancies between development of right customer defined standards and delivery of the service.

People/Employees³

Even when we have the right standards, there is no guarantee of a high quality service performance and delivery. The problem might occur due to the fact that service performance is not backed by the right human resource, systems, and technology support. People being at the core of performances are the determining factors for the level of quality they produce. Best, good, or bad performances are delivered by people. People are, therefore, at the root of the performances. There are many critical blocks that inhibit the required level of service from being performed. Of those the following are in the forefront:

- Wrong choice of employees who do not understand their role and are not really service-oriented.
- Employees who are in conflict with their roles and the ones who see a conflict between their organizations and their personal values.
- Inadequate technology support to perform the service efficiently.
- Inappropriate compensation system institutionalized at the company; no rewards for good performers etc.
- Lack of empowerment and team work.

HR (Internal marketing)⁴

To overcome the abovementioned impediments, companies need to have strong and effective HR strategies that emphasize induction of the right people, training them, motivating them, and providing them with the feedback etc. Good HR strategies then need to be complemented with effective marketing strategies to make the whole effort cohesive.

Internal customers: Not only the people factor is to be viewed from the standpoint of performance to external customers, it also needs emphasis from the viewpoint of internal customers. All front-end people who represent the organization and are its face need to be treated as internal customers by the support staff that is responsible for maintaining systems and providing them with the technology support. Until the internal customers are satisfied, they in turn cannot satisfy the external customers. The goals, motives, and incentives of these internal customers should be the same as those of the support staff.

Customers as people: Customers, as people, can behave so differently that they bring in heterogeneity into the service process. When customers do not provide complete information to providers or when they become overly demanding it becomes challenging for the providers to perform a service of high quality. Effective organizations try hard to teach their customers to play their roles more appropriately.

Franchise challenge: Many organizations feel the difficulty of not providing service of high quality, for they are constrained by the franchiser-franchisee relationship. Those franchisees whose values do not align with those of the franchisers, may offer a service of inferior quality for the reason that the franchisers do not have control over the encounter. For this particular reason, service organizations must develop an effective system of both controlling and motivating such franchisees.

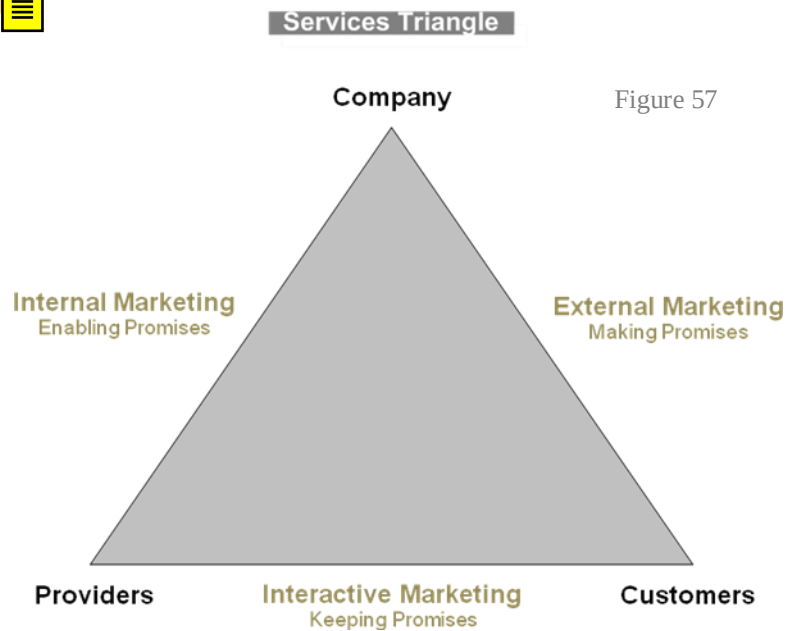
Demand-Supply Synchronization: The synchronization between demand and supply also poses a problem of delivery of high quality and performance. The shift in demand and supply causes variability in marketing strategies during high and low sales periods, thus causing variability in performance.

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SERVICES MARKETING**Introduction**

People play a crucial importance in service organizations. In the absence of a tangible product, their roles become much more important than similar roles in manufacturing organizations. Sellers do not just have to look for competencies, but also for a certain mindset and serious inclination among all those who may prefer to be front line providers and support staff. The lecture looks into the relevant strategies that companies need to follow to have the right people and then the need to continually develop them in light of changing environment, technological in particular.

**People's critical importance¹**

To have the right people in the organization, therefore, is critical. They are the ones who satisfy customers by performing different roles and are looked upon by customers as

- The company
- The brand
- The service, and
- The marketers

Knowing that the basic objective of services marketing is making promises and then keeping promises, people's contribution in making the promises has to be analytically understood with the help of "Services Triangle".

According to this triangle, there are three important groups of people who work together to develop, promote, and deliver a service. These groups are company, customers, and providers. Providers could be employees, franchisees, licensees, or outsourced entities. For these groups to succeed, three types of marketing must succeed in order to successfully deliver a service – external marketing, interactive marketing, and internal marketing.

External marketing is an effort to communicate with the outer environment basically making promises about what the service is and how it can satisfy customers' needs. This type of marketing is the one that is visible to customers, competitors, and the market in general. But, this type of marketing is just the beginning of the process, which needs support from the other two types of marketing.

Interactive marketing is the coordinative and interactive effort among different departments of the company, suppliers and all those parties who contribute toward making the service deliverable. It is at the stage of this marketing where promises are either kept or broken. The possible outcomes, positive or negative, owe to the involvement of suppliers, subcontractors, licensees, and franchisees etc.

Internal marketing provides an enabling environment in which people develop their willingness and ability to deliver. This happens because of first hiring the right people, then training them and keeping them motivated about fulfillment of company goals.

It is a composite effort in which the three groups must get the support through a collective marketing mechanism. The mechanism must be well-aligned to work effectively. If it is lopsided, then the triangle gets disturbed and hence poor results.

Whatever is promised by the external marketing is to be delivered by providers as the enablers within the internal environment. This cannot take place unless they have the support from across the departments and all stakeholders. From this standpoint, much relies on the efforts of the enablers, who must work productively to perform according to customer expectations. For that to happen we have to see to it that providers (enablers) within the company are satisfied people, who put in their best.

Employee satisfaction²

Actually, employee satisfaction is related to customer satisfaction and profits. Satisfied employees put in their best, perform according to customer expectations, keep their customers, and add to profits. Researchers show us that a good employee climate and a good service climate form the basis of customer perceptions. When customers find service up to the mark they have a way to relate that with employees' motivation and enthusiasm and to perceive that the organization does look after its people. In other words, service that is delivered high on quality dimensions does have a reflection of a good employee climate and internal marketing.

Employee satisfaction and customer satisfaction complement each other. The former leads to the latter. The latter goes back and gives the employees a sense of accomplishment. We can draw from this concept a conclusion that internal satisfaction of employees leads to customer satisfaction to their retention, and profits. This becomes a chain of high value that offers not just commercial benefits at a particular point in time, but also becomes the basis of a positive culture that minimizes gap 3. It is a proven fact that companies that keep their people satisfied and retain them outperform their competitors.

Satisfied employees drive quality dimensions³

The behavior of employees has a direct bearing on customer perceptions in terms of all dimensions of quality. The demonstration of the ability to fall on all five dimensions is within employees' reach and capabilities.

Reliability is totally within the control of employees. Even when the service is remote, support staff has to make sure that internal processes are in place and they can respond to customers' requests and complaints. In case of self-service, equipment must remain in order so that customers do not run into problems.

Responsiveness is all about having the willingness to help customers by being understanding and prompt. It, therefore, is an attitude that has to be displayed by employees.

Assurance is highly dependent on employee's ability to communicate with customers and inspire trust and confidence in them.

The quality to identify with customers' situations and problems by being caring reflects empathy.

Even good dress and neat and clean uniforms and well-kept facility communicate employees' ability to control the dimension of tangibility or PE.

Limitations and challenges⁴

Despite having the ability and capability to master all the five dimensions of quality, providers can still fall short of the standards due to certain limitations.

The limitations generally plague the front-end employees who are the face of the organization and the link between the outer environment and the support component of the organization. These people are supposed to play their role according to the script and the standards set by the company under any circumstances. To be able to do that, people should master the concept of “emotional labor”, according to experts. This goes beyond the physical or mental skills required to perform the job.

People are supposed to suppress their inner feelings and put up the face of the organization. For example, it is extremely challenging for an employee to be all smiles when he has had a tragedy at home. Generally, the factors of friendliness, courtesy, and empathy form the emotional labor that people should exercise while on a service job. The real challenge lies not in understanding their roles, but in practically playing them.

Conflicts

The conflicts faced by such employees happen to form the greatest challenges, although other factors discussed earlier also play a role. There could be different forms of conflicts.⁵

Role conflict is the one in which an employee may think what he is doing is against what he likes or holds high as a value. Especially, when the employee knows the customer is wrong, delivering a quality service at that time is most demanding.

Conflict between organization and the customer is the one in which either the organization is wrong, from employee’s perspective, or the customer is too demanding. The challenge becomes greater when the employee is convinced that there is something wrong with the organization. Making the decision to satisfy the customer against the rules and regulations becomes challenging and conflicting; it affects performance.

Inter-customer conflict is the one when one customer thinks he is discriminated against another one who was given special attention and shown extreme flexibility in the presence of others. In the backdrop of our cultural background this may also be interpreted as VIP culture at the cost of attention to others. When demanding customers exhibit such a behavior to seek attention, it causes conflict in the minds of other customers; even when the case is genuine, it creates resentment on part of those who may think they have not been given due attention.

Strategies⁶

There is a complex set of strategies that help organizations work toward closing gap 3. Such strategies are based on the premise that basically *promises are to be fulfilled* and it is the people who will perform to make that happen. Therefore, four strategies are suggested by experts. All these are sub-divided into three areas each.

- Hire the right people
- Develop people to deliver
- Provide needed technical support
- Retain best people

Hire the right people

This strategy basically dictates the traditional fundamental of hiring the right people for the right job. The emphasis here is more on hiring those who have the right service orientation.

Compete for the best people: It calls for having the best share of the available talent pool on the market. Experts emphasize that good organizations go for the highest share of the talent. Such an approach calls for a very well structured effort based on which companies get into a buyer mode and sell/promote themselves hard for attracting the talent through good marketing. Hunting for good

people means that companies place themselves as good buyers and marketers. They can do that by accurately classifying the job designs and promoting the same for availability of good staff. It is for this reason that companies give comprehensive advertisements explaining the job content and the commensurate experience and background to do those jobs.

Hire for Service Competencies and Service Inclination: An important element of inducting the right people is to look into the following two dimensions:

- Service competencies
- Service inclination

Service competencies are all about having the right skills and knowledge to do the job. In many cases of services this could relate to certifications and degrees in the fields of law, medicines, and business management etc. There are, however, cases where front line providers are not required to be so well equipped with degrees, but are yet required providing service very efficiently. In such cases, people of good intelligence should be employed.

Service inclination is all about willingness to serve, having an attitude for service-related work. Flight attendants signify this personality characteristic. Service orientation can be assessed in terms of people being friendly, helpful, courteous, thoughtful, and sociable. People who have positive attitude and are team players are the ones who succeed more on service jobs. An ideal selection should consist of people who fall on both dimensions of competencies and inclination.

Be the Preferred Employer: Employers can fall into this category if they are known for caring their employees. They can be known for this characteristic if they are good at:

- Improving the human capital through training programs and career advancement opportunities.
- Offer incentives on performance and length of service by things like stock options, extraordinary health and medical facilities etc.

Develop People to Deliver Service Quality

Once an organization has hired the right people keeping in view the competencies and inclination, the next strategy is to capitalize on that human capital through further training and development. Without a trained workforce no organization should expect its people to deliver a quality service.

Develop technical and interactive skills: With job specialization and technology support in the present day's world, it is imperative that organizations train the human resource in line with their goals. Technical skills are job-related knowledge-based skills that must be developed for new staff and further harnessed for existing staff. Such skills are about developing certain techniques to handle and manage job-related issues, which are unique for every organization.

As examples, an insurance company will have its own requirements of underwriting, while a hotel may like to train its people about computer-based applications for sales prospects as well as customers, which the employees must master. A fast food chain has its own technical procedures to follow which its workers must learn.

Good organizations train their people on-the-job or send them to certain institutions for training relating their jobs. Some of the good organizations have their own training wings – banks, for example.

Interactive skills are developed for front-end staff. These are all about the behavior of friendliness, courtesy, empathy and a certain type of mannerism commensurate with the established norms of the industry. Hotel staff is trained about such mannerism to make their guests feel important; it creates an impact on them for ultimate satisfaction. In addition to mannerism, staff should also be cross-trained across all departments and educated about strategic thinking of the company to

imbibe the values needed for quality delivery of service. Ongoing training and service improvement programs should be a part of the operations strategy.

Empower employees: Empowerment is giving employees the skills and authority along with knowledge and tools to make decisions on their own for serving customers.

Authority alone will not be effective until the time employees also have the relevant knowledge to solve a certain problem. This owes basically to complex support systems that come into play to reach solutions. Empowerment does not just carry advantages; it also has disadvantages. It generally is successful in companies where services are customized and carry elements of differentiation. The structures in those organizations are generally flexible and jobs are enriched, which also means they have qualified and more responsible front-end employees. In organizations with centralized structures, this may not work that well.

Promote teamwork: Since services jobs are more challenging and demanding from variability standpoint, employees' productivity increases when they work as a team. Teamwork gives them a sense of support and comradeship. They tend to work with enthusiasm and be more effective with no sense of fear. The challenge is motivating team work. This can be done by letting everyone know their contribution to delivery of the service. Even if someone is not directly interacting with the customers, they must know the importance of their work along the chain of activities. 

By letting the staff look into the blueprint with explanation of the strategic implications of what everyone is doing, companies can promote the spirit of teamwork. To keep them motivated, rewards and incentives should be team-based and not individual-based. One way is to develop cross-functional teams that are more meaningful and insightful. This implies putting together people from marketing and operations if those are interacting with the customers directly. Such teamwork keeps functionalism at bay and elevates the sense of goal-orientation and customer satisfaction.

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SERVICES MARKETING**Introduction**

This lecture is a continuation of the strategies for having the right people. Two of the four strategies, namely, have the right people and develop people to deliver service quality have been discussed in the previous lecture while the remaining two are explained hereunder.¹

Provide Needed Support Systems

Without the existence of customer-oriented and customer-focused support systems, no organization can deliver service of high quality. Support systems come by way of technology support as well as human support through teamwork. Internal support therefore is a function of technology factor and human factor.

Measure internal service quality: To ensure that the internal systems and procedures are up-to-date in terms of satisfying customers, companies determine quality of internal systems by way of establishing internal customers and then assessing how good they are at delivering the service.

Hypothetically, if department X is providing support to department Y, then X establishes its contribution and defines quality standards of its contribution. It can then let department Y, its customer, define quality and then assess it the way it is provided to Y. The method is to have Y assess it and then score it as to how good in reliability and overall quality it is.

If all suppliers (internal) of service are satisfying all of their customers (internal), then the chances are that the cumulative contribution by all will result in the final service of quality to the actual customer.

Provide supportive technology and equipment: Service employees need the right technology and equipment to work efficiently and effectively. The technology support can come by way of software support starting with front office automation to CRM (customer relationship management) to ERP (enterprise resource planning) packages etc.

Develop service-oriented internal processes: The internal processes should be designed with customer values and satisfaction in mind. Traditionally, internal processes are designed with controls, cost efficiency and needs of employees as the major factors.

To come up with processes that reflect customers' perspective, organizations need to undertake what is process reengineering. The need for this arises from the changes that we have to incorporate keeping customer in focus. Go back to the blueprint and you will see the critical quality points or the moments of truth. Generally, it is difficult to implement reengineered processes in organizations with well established processes rooted in traditions.

Retain the best people

Once the right people have been hired, trained, and supported with the best technology, they need to be retained. Many organizations take good people for granted as if they are going to stick with them through thick and thin. Unfortunately, that may not be the case if people are not treated in a strategic way for retention.

Include employees in company's vision: In addition to training and development, employees could be given a great feeling of reassurance, participation, and belongingness if the company shares with them its vision. Top managers who subscribe to this view share with their people the destination as they envision it. Knowing that vision is where a company wants to reach, such sharing reveals many strategic moves that companies intend making. This evokes a great sense of bonding and commitment out of the employees who resolve to stick with the company they think trusts them and reassures them with

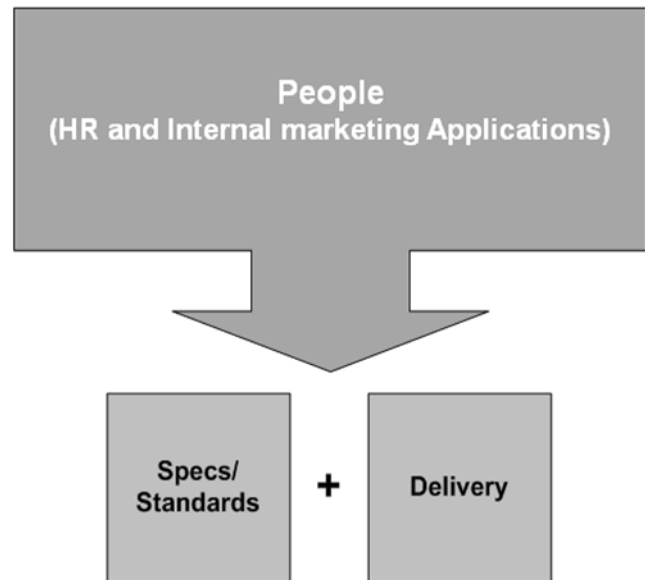
conviction about its future plans. Having a broad picture of the grand strategic path, employees find it more sensible to remain with the company than trying others.

Treat employees as customers: Some top managers do believe in a good employee culture along with a service culture. They do also believe that the interplay of the two climates results in satisfied employees and customers and that both complement each other to the benefit of the organization. They know that good financial results in terms of revenue growth, profitability, and market valuation are a reflection of such interplay. Not just the financials, the overall impact can be seen in a strong service brand and reputation of the company.

Measure and reward strong service performance: Generally the tradition and the norm are to have reward systems relating sales, productivity, and other financial results. The traditional approach keeps the service excellence out of the equation. Experts think that rewards should be given based on individuals' efforts toward service excellence. Companies that subscribe to this theory relate rewards with customer satisfaction. Working out rewards on such a basis, however, is not easy, for companies have to work out the score of satisfaction, which requires research.

Strategic Direction to Close Gap 3

Figure 58



Developing a service culture²

All the strategies should help employees develop positive behaviors. Since the overall behavior of employees form the culture of the organization, it is essential to develop one that is *customer focused, service focused, and employee focused*. 

Corporate culture is a set of shared values or in simple words exhibition of behaviors in a particular way. Experts call for creating this in a way that it promotes:

- Giving good service to customers and employees (meaning internal as well as external customers), and
- Appreciation of good service.

This should be done with such a conviction that it becomes a way of life. It, however, is not easy, for it takes a long time for the culture to take roots. The human resource and internal marketing practices discussed as strategies can lead a company toward creating the kind of culture where both a good employee climate and a service climate are a “way of life”.

This “way of life” helps companies to close gap 3, which happens due to a variation between specifications/standards and delivery of service.

We now move on to the area of distribution, which also helps companies move toward closing gap 3. Different concepts discussed under this are will make it clear.

Summary - people

The importance of people is not just limited to hiring the right people. It goes beyond that into training them in line with the vision of the company. The idea is to have people an insight identical with that of top management into company goals and the need to realize those. While training is undertaken, many dimensions of top management's perspectives are to be shared with people in order for them to be highly productive. Latest technology should be inducted and people trained for the use of that toward process improvement on a continual basis.

Not only customers, but employees should also be brought into a focus to have a culture reflective of the dual focus. Well-trained and well-looked after employees tend to be satisfied employees, who work with a high level of zeal and motivation and thus keeping customers satisfied. This is the best way to keep gap 3 from occurring. Dissatisfied employees will not create satisfied customers.

Distribution³

It basically is availability and accessibility of a service to customers. Availability means that a service exists, while accessibility means that a service is relatively easy to find and do the transaction about. One of the fundamentals of distribution critical to both availability and accessibility is the operating hours of any business. These hours must be compatible with the target segment's availability. It works both ways - to the convenience of the target market and to the benefit of the business.

Aware of this criticality, retail stores offer service until late in the evening; banks have extended their working hours until 5 PM; they also have improved on both factors of availability and accessibility by installing ATMs and then establishing long hours of operation.

One of the latest developments (2009) marks an impressive application of the use of mobile phone technology for banking purposes by MCB, one of the largest banks in the country. Customers can have access to their account through the mobile phone and do transactions relating quite a few products like knowing the balance, getting their account statement, re-charging their mobile balance, paying for post-paid connections, making payments for their credit card, and making account to account transfers. All this signifies the importance of the factor of accessibility and the bank's ability to capitalize on the latest technology to the customers' benefit.

As another example, IT revolution has transformed the travel industry in which the telecommunication and internet support enable you to buy your tickets over the internet. Nothing in the present day's world could enhance accessibility more than the two examples relating the bank and the travel industry.

We all know that more and more websites are being created for the purpose of e-business and more and more products are coming into this fold to improve accessibility.

Channel Structure⁴

The basic objective to develop one particular type of structure is to make availability easy and as widespread as possible keeping in view goals of the organization. Structures could be of two types

- Direct channels
- Indirect channels

Direct channels mean there is no intermediary between the vendor and the customer, whereas indirect implies existence of intermediaries between them. Depending on the nature of the industry, companies like to go for intermediaries, which take different forms and shapes. Some are rich on physical evidence, whereas others require scant or minimal physical evidence. Industries that just require freelance kind of agents can go for any number of agents without making much of investment into the intermediaries.

Channel Options⁵

There are different options available to service sellers to meet the goals of sustainability and further growth with the help of distribution. They opt for one of the four types:

- Exclusive distribution
- Selective distribution
- Intensive distribution
- Multichannel systems

Exclusive distribution is appointment of a limited number of agents/representatives or outlets, who can carry just one brand. An American insurance company recently appointed MCB its exclusive distributor for selling insurance products through the bank's network. The distributor remains one, but the implication in terms of outreach is phenomenal.

Selective distribution is appointing a few select parties as agents, who would like to carry the brand. These intermediaries may also be working for some other companies. Imagine another American insurance company getting into our market, trying to tie up another huge bank, but not having success. It may opt to have a couple of smaller or small banks as their distributors for attaining a decent level of coverage. Decision about which option to take depends on the competitive realities of the market and available opportunities.

Intensive distribution is placing the service with as many agents and third parties as is possible to have very intensive as well as extensive outreach. Credit card companies like to get into this kind of arrangement. Actually, any entity involved in commercial activity can be their agent, who can help them increase their coverage and hence sales. From retailers to restaurants and hotels to hospitals to travel agents to web-based merchants all accept credit cards.

Acceptance or non-acceptance of a card reflects that card's outreach, based on which customers form their perception of its distribution effectiveness. And, that basically manifests the concept of availability and accessibility.

To meet the goals of growth, many fast food companies like to get into the intensive mode. In addition to stand alone set ups they are getting into shopping malls and airports. They may also like to get into education campuses to increase their outreach. The dynamics of competitive forces might force them to get into places like hospitals also.

Multichannel option is the use of more than one channel to reach more than one segment. This option, in addition to increasing coverage, lowers distribution costs. For example, an airline selling tickets through its own reservation office, agents, and also through the internet. Some companies use telemarketing as a channel in addition to other established networks.

Channel Resizing⁶

Channels keep getting resized and reshaped with the passage of time. The advancement in IT and telecommunications has affected channels – some negatively and some positively. As a negative affect, some stand squeezed like the travel agents who see their existence giving way to internet-based reservations.

The reason people find tickets on internet less expensive is that airlines save distribution costs relating reservations. According to an authentic source, ticket distribution is the third largest expenditure of airlines. By circumventing agents, airlines do not have to print tickets and then pay commissions on top of that to agents.

The technology has also had a positive affect, which manifests itself in case of courier companies that on the basis of their IT strength offer inventory management solutions to their customers. Such companies help manufacturers of different products ship their machines, equipment, and parts to the desired

destinations in an effective manner thus taking over to a great extent the function of supply chain. Courier companies can also help their customers to receive products of their choice at their homes if the concept of e-commerce or web-based retailing catches on in our market.

Summary - distribution

Just like in manufactured goods, distribution plays an important role in the area of services as well. Since distribution is all about availability and accessibility, sellers formulate distribution strategies carefully to make their services available freely at hours suitable to customers.

Distribution is structured in light of company goals and the realities of the market. The available options, therefore, should be viewed accordingly.

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SERVICES MARKETING**Introduction**

We learn the concept of electronic channels (ECs), a spin-off from the latest information technology and telecommunications. The lecture highlights benefits offered by ECs and pinpoints the challenges as well. It then takes us into strategic options to enable us understand the strategies we can opt for while growing in services. The concept of “franchising” without discussing which our learning on distribution will remain incomplete will also be discussed during the lecture.

Electronic Channels-ECs¹

Electronic channels are playing a role toward resizing of channels of distribution. Such channels are becoming popular, giving a new shape and form to certain services, which could be categorized in the areas of education, entertainment, banking, music or movies on demand, media libraries, videoconferencing, and information dissemination. These services are pre-designed and pre-produced and therefore take care to a great extent of the challenges of inseparability and allow a form of standardization.

The more such services are technology supported the more they take care of the problem of inseparability and non-standardization for the reason there is no face-to-face interaction between providers and customers.

Benefits of electronic channels²

Low costs: There are certain benefits involved in having electronic channels. Apart from being standardized and having the character of pre-produced like tangible goods, these are quite low on costs. The cost of reaching the target audience is much lower than the costs involved in personal selling or interpersonal types of services. To make the service output effective and powerful, however, sellers have to make them interactive whereby customers can ask any number of questions, interact to their satisfaction, and assess the service as credible.

Customer convenience: It is to customers’ convenience to access sellers anytime. The vendors are available 24/7 to take customer orders or offer them the promised service.

Customization and feedback: Customers can customize the services in the comfort of their house or the workplace without having to walk into a facility by opting for features suitable to them. This implies sellers’ smartness to offer as many choices as possible toward customization.

Customer feedback: It is easy to get because of customer’s on-line presence. Building into the system the ability of getting customers’ opinions and reactions is quick and productive. Problems can be sighted, recovery fixed, and learning imbibed for future improvements.

Challenges³

The benefits of ECs are not without challenges, however.

Active and selective customers: Customers who opt for web based applications and use cyberspace do that at will, meaning they can opt out of it whenever they want or not be enticed at all. The web is not like a TV to which audience is captive. Web audience is selective and active, not passive and captive. The sellers, therefore, have to design webs and channels in a way that is most attractive and enticing. To make them attractive, customers are generally offered prizes on the basis of contests etc.

Price competition: The traditional character of a service of being available only with the seller and hence having the feature of not revealing prices of competitors is no longer the case with ECs. Just like tangible goods sit

side by side at a retail store and reveal prices of all, customers can access prices of those eservices sold through the internet and draw comparisons.

Making it interactive and hence customized: Another challenge is sellers' ability to customize the highly standardized and pre-designed services like distance education. The answer lies in offering courses that students want and making the process as interactive as possible to simulate actual class room environment.

Simplify difficult and frustrating designs: The sellers also have to make websites more user-friendly for users not to feel offended and intimidated at interacting with a web that is challenging, times-taking, or beyond users' comprehension. To make customer involvement a pleasing experience webs should be made easy and inviting, not giving the impression that those are meant only for a bright few.

Requires a fundamental change: The use of ECs draws sellers' attention toward bringing about a fundamental change in the behavior of customers, who should be enticed into web-based programs in a way that they become interested to play a more active role. Actually, making customers more interested in markets like ours also calls for developing a well-aligned coordinative relationship between selling companies and banks through which payments are routed.

Distribution Growth Options/Strategies⁴

There could be a number of strategies, but the primary ones are:

- Multi-site strategy
- Multi-service strategy
- Multi-segment strategy

Multi-site is expansion of locations and having more than one site, as and when growth dictates that. This strategy is generally adopted by businesses specializing in cost efficiency position. A highly standardized operation is easy to duplicate and hence for the purpose of growth sites are added to the existing network.

The note of caution here is that expansion should be well-deliberated and not pushed. Undue pushing may thin out your resources and make the operation ineffective and outright failure for not being able to keep up the standards of quality.

Multi-service strategy is the option to sell more services than one at the same facility. At many businesses, it is only logical to go for additions as product extensions to optimize revenues and opportunities of growth. Businesses having positions of customization and service functional quality generally opt for this strategy. However, it is important to consider the basic character of the service product by making a distinction in terms of it being a core product or a peripheral product.

Core products are the mainstay of the business and hence the main line of business. Adding new core products to the existing line of business amounts to starting a new business altogether. Serious consideration should be given before starting a new business, for it taxes available resources in terms of money and human resource. It may also hamper the efficiency of the existing business.

For example, a courier service wanting to go into home and office cleaning services is adding a new product altogether with different mechanics of operations that may cause confusion. It will ultimately damage the efficiency of the original core product for which the business is known. It also may not provide the company with the additional revenue that the company thought would come its way.

The same courier service getting into select retail items that may be used as gifts and mementos and sent to your near and dear ones is getting into something that is closely related to its core products and does not tax the operational capability of the company and hence is peripheral. Peripheral services support the core and therefore are derived out of the core.

Multi-segment strategy lets companies make adjustments between high and low demand periods. It therefore helps companies in making use of the underutilized capacity to additional segments. A wedding hall that remains unutilized during the day time can be put to use by offering services like business meetings with lunch. However, following are some of the challenges posed by this strategy:

- The business has to deal with different demand structure.
- The business has to make certain modifications to the existing environment.
- The business has to train its people for the differences that exist for different demand structures.

This strategy lets companies develop their business without getting into new locations and utilizing the existing ones in a better way.

Companies can get into variations and combinations of the above strategies, but the fundamentals that are not to be missed are:

- Businesses must improve revenues and post good returns on investment.
- Business must improve the cost of operations and achieve efficiencies.
- The overhead costs must not go out of control.

In other words, growth and expansion with the help of distribution should not take place at the cost of quality and operating costs.

Franchising⁵

It is selling of a service concept to a third party who agrees to establish and operate a service facility according to a franchiser's specifications. Since capital investment is franchisee's responsibility, it is a rapid way of growing through multi-site strategy with minimal capital. The facility has to be designed as per franchiser's guidelines.

Benefits

Capital cost benefit: It brings in outside capital without putting the pressure on the business. The growth, therefore, can be faster than it otherwise could be.

Franchisee's management: The franchisee brings the additional management with him. The management generally has prior experience and knowledge of the local market.

Low risk to franchisee: It offers lower risk to the franchise, which benefits from an established brand name supported by a good concept and successful business plans. In short, the franchisee reaps the benefits of a leveraged business concept.

Advertising support to franchisee: Franchisee also gets support from the franchiser in terms of advertising, promotions, and technical issues. Franchiser however gets a fee from the franchisee for giving the service

Constraints

Lower income: This relationship offers lower returns to both the parties in comparison with if it was an independent business run by both of them. It, however, gets offset by bigger overall income brought in by a strong brand name.

Quality control: Quality control and operational issues do become a challenge, for the franchiser does not have total control over the franchise.

Physical environment: It may offer a problem in the area of physical environment where the franchisee may like to deviate from the franchiser's standards and compromise the blueprint.

Motivation: Motivating the franchisee at times becomes a great problem, for franchisee may think his goals are different from those of the franchiser.

Line extension constraints: It may offer disadvantage to the franchisee, who may think adding an additional peripheral service will be beneficial, but may not be able to do so due to franchiser's stringent policies.

Operational position: Franchising, obviously, is suitable to the position of cost efficiency in which operations are standardized. A customized business will not find the concept suitable.

Summary

Electronic channels have added a new dimension to distribution of services. The use of these channels takes care of the variability and inseparability challenges to a large extent. However, sellers should carefully consider the challenges ECs offer and then design channels accordingly.

There are three main strategies to distribution expansion and companies opt for one or a combination of those relating the nature of products they sell and the circumstances that surround their business situations.

Franchising is an interesting concept that can give an impetus to growth. It, however, has its own benefits and limitations to offer. But, it does add to the power of multi-site strategy.

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SERVICES MARKETING**Introduction**

The concept of distribution management is important to understand while companies opt for different distribution strategies. Rightly structuring the organization becomes an important objective during this stage. The lecture throws light on the relationship between strategies, organization structures, and economies of scale.

The lecture makes a transition into another major area of “managing supply and demand” and looks into the steps involved in achieving this management.

Distribution Management¹

When business grows and a company has more than one site, the question of managing channels becomes important. It gains more and more importance with the expansion of business. Keeping growth in view, any company has to keep two important components of distribution management close to its serious consideration

- The organizational structure
- Economies of scale plan

Organization structure

The structure can be either centralized or decentralized. For services that are highly standardized and multi-site, a centralized structure is more appropriate in which most of the decision making and authority rest with the centralized top management. The tasks are simple and the steps taken to produce services are predictable.

For services that are multi-service set ups or are defined by the functional quality position, the structure of the organization tends to be decentralized. Every site may carry either certain services that require special handling or management, or the solutions in different cases may take different shapes and forms. A five-star hotel offering different services to a local population would like to have the authority of making pricing and other strategic decisions locally given the realities of the local market. The management would not like to go back and forth the headquarters for every detail of the deals they make. Authority of each individual branch should be high because of the functional quality attributes at play.

Economies of Scale

Economies of scale are basically cost advantages associated with operations. Economies result when companies produce in large quantities, buy in large quantities, and make more effective use of organizational resources (than competitors) including the collective skills and knowledge of their employees. Businesses must consider the level of economies-of-scale to be achieved from the growth of services. In other words, the growth should offer scale economies in areas more than one.

In the financial area, the profitability through expansion should reach a point at which the company can plough a portion of that back into financing more growth and expansion. This should reduce the business' dependence on outside sources and keep it from any undue financial encumbrance. In the area of marketing, scale economies should be offered by growth in a way that the business does not really have to spend on advertising again to push and promote the added sites. The brand image and company reputation should offer the benefit of optimizing the marketing expenditure.

In the area of operations, expansion should offer the company the following economies:

- Service-specific
- Site-specific
- Firm-specific

Service-specific economies come by way of division of labor and specialization. The more a company uses this concept and replicates the business model, the more chances it avails of getting such economies.

Site-specific economies occur when a company offers more than one service at one particular site.

Multi-service strategy should bring about this benefit for the fact that capital expenditure on the physical assets is already accrued and therefore it all depends on the ability of the management to relate the added peripherals to the existing assets in the most profitable way.

Firm-specific economies are a combination of the preceding two along with an additional economy of the size of management. A given size of management (top and middle) in particular can be optimal for a number of sites. The company should plan to grow to a point up to which the same management size is compatible thereby keeping the operation economical. Also, outsourcing could be another advantage if it happens to be cheaper than producing certain portions of the service in-house.

The Quality Aspect

No matter how good companies are at managing growth with the help of distribution management, the biggest challenge for service sellers remains that of quality. Growing in a way that compromises quality is against all fundamentals of providing customer-focused service. If quality declines, then sales will go down and a sales decline will be a reflection of customer defection. Recovery of a decline becomes one of the biggest challenges any company may face. A considerable amount of attention must be given to that aspect by ensuring companies have the right people and financial resources to meet the challenge. Therefore, planned and systematic growth should be undertaken keeping in view that customer benefits are delivered the way they want. Companies must specialize in creating a culture that is customer-focused, service-focused, and employee-focused. The beauty of the growth pattern should show itself in the development of a culture that ensures the tri-focus along with good financial results.

Summary – distribution

Organization structures are woven around strategies companies choose to distribute their services. The structure and strategies should correspond to each other in a way that the working becomes efficient and companies are in a position to attain economies of scale in comparison with their competitors. The quality aspect must never be compromised especially when companies are growing. Keeping the tri-focus on customers, employees, and the service is the challenge that any company faces and should prove it can surmount.

Managing supply and demand

For the simple reason that services are perishable and cannot be stored, they have to be generated real time, meaning on demand whenever an order is placed. The fluctuation in demand poses a challenge to sellers of services in managing them. Sometimes demand will exceed capacity, while at other times it may not leaving the capacity underutilized. Both situations are bad for the reason that unmet demand deprives the company of added revenues that could have come its way, whereas underutilized capacity can run a company into an outright loss situation.

Maximum and Optimal capacity

As per the empirical evidence, 100% capacity utilization stresses a company's capability to deliver total quality, whereas a somewhat lower utilization between 70-80% is considered as the optimal capacity utilization that enables a company utilize its resources in the best possible way without any stress.

Since not all businesses are equally challenged by fluctuations in supply and demand, this rule of thumb may not apply to certain industries, for example a sports stadium, a utility company like electricity, and telecommunications etc. However, the challenge remains that of estimating the optimal level of demand so that a business can prepare itself to productively meet it. We should learn the steps involved in making such estimates.

Steps in managing supply and demand

The steps involved are:²

- Determining the demand pattern
- Assess the causes of variation in demand
- Develop methods for managing supply
- Develop methods for managing demand

Managing demand

*Determining pattern of demand:*³ Since all purchases are recorded and nothing ideally should go unrecorded in terms of transactions, companies generally have complete data on what has been sold in relation to a particular time frame. Historical data, therefore, becomes the basis of determining demand patterns relating different periods. The highs and lows of demand are caused by season, weather, or any particular occasions of religious or cultural importance in any society.

Occasion like HAJJ causes an upsurge in demand for air travel immediately before and after the period of HAJJ. Likewise, hotels in the northern areas experience increased demand during hot months in the plains and again somewhat a rise during winters when people wish to see the snowfall. But, the fact remains that during the months that are not marked by the high season, hotels experience a fall in demand with which they have to cope.

It is due to these fluctuations that supply and demand are managed to ensure an optimal match between the two. With the understanding on the first two steps of demand pattern and the causes of variations, we now move on to understanding how to manage supply.

Managing Supply

It basically is altering supply position or output capabilities of a company. During high demand companies expand the supply base to meet the excess demand, whereas during low periods they contract their output to ensure there is no waste. It is done by adopting the following strategies:⁴

1. Part-time employees
2. Employees working overtime
3. Using peak time operating procedures
4. Cross-training employees
5. Increasing customer participation
6. Sharing facilities with other firms, and
7. Outsourcing

Part-time employees: This practice is undertaken to meet excess demand during high season. For the remaining time, companies usually are not in a position to afford the cost of employees in the face of low demand. And hence, the option of part-time employees is exercised. The base line of the strength of employees is the lean period, which marks the actual strength of employees.

The benefit of this approach is that it is economical and cost effective. For the fact that part-timers are not paid as regulars, the operating cost is lower. However, from the marketing perspective, this

approach arouses concerns for employee training and knowledge they possess of the service and the company. Part-timers also are not as productive and therefore they lower productivity; they also do not really have the service orientation of regulars.

For the lack of the abovementioned elements, part-timers cannot satisfy customers, for they are poor on delivering. Knowing the sensitivity of the “people aspect” toward minimizing gap 3, we can debate the efficacy of their services. The answer, however, does not lie in keeping a force of regulars even when there is no work. It rather lies in treating the part-timers just like regulars and giving them adequate training for them to optimize their service orientation and hence the final delivery. The treatment may not be exactly at par with that of regulars in terms of all the benefits and payments, but it should be fair enough for the part-timers to feel they are part of the organization.

Employees working overtime: As against part-timers, this approach offers the opportunity of using the regulars for extended hours. What may keep businesses from using this approach is the increased cost associated with it.

Regulars are paid at the rate of one and a half to twice their normal salaries as an international practice and, therefore, sit higher on costs as compared with part-timers. Drawing a comparison between outputs, regulars definitely offer a better chance to deliver better, but can be constrained to do so, on account of long hours and resulting fatigue.

The marketing perspective is that regulars in such a situation may become less efficient and productive, for they may like to take short cuts to deliver. As an approach, this one is better in that regulars know the company, are knowledgeable and know their customers. The trick lies in having regulars perform to their optimal limit and also train some part-timers if need be.

Peak time operating procedures: Another way of expanding supply is to involve as many people from within the organization to perform tasks that carry priority during peak hours. This implies shifting some tasks to that part of the day that is not peak time. For example, cleaning in a fast food facility can be shifted to non-peak hours to increase the number of customers served by involving the cleaning people in serving the customers.

This might compromise the cleanliness and hence leave a negative impact on customers. Whereas this approach can optimize the capacity of a firm and increase revenues, it may offer the customers the feeling that they are not getting full service for which they pay. In order to keep customers from feeling cheated, companies should go into “perception management” techniques that may take customers’ attention off the jobs that are not attended to.

The basis of perception management is to let customers perceive that the amount of time they have spent waiting is less than what it actually has been. This is done by improving the environment and having some interesting distractions like TVs and screens with moving news texts. Research shows that customers in such situations prefer entertainment more than anything else and hence music performance and the like. Another important technique is to have customers’ input as to which tasks could be transferred to some other, lean time.

Cross-training of employees: This approach also lets firms flex their capacity by having people knowledgeable about different jobs and hence extending their helping hand toward completing tasks quickly. In case of absenteeism, cross-trained employees keep the bottlenecks away from the process. This offers employees to appreciate the job content of each other and let them understand the bigger picture for a better delivery of service.

While, firms can improve capacity, the challenge of quality never seems to go away under such situations in which inputs are made by those who are trained for other areas, and are not the real experts. This calls for proper training to make every one an expert – internal marketing!

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SERVICES MARKETING**Introduction**

The lecture continues with management of supply side and looks into strategies for managing demand. Toward strategic formulation, the tools for managing demand are discussed. The thrust of the lecture is toward learning when to *stimulate* demand with incentives in low periods and when to *shift* demand from peak period to low period. The important concepts of differential pricing and yield management are also discussed.

Increase customer participation: To serve more customers and optimize revenues, companies like to involve customers in the delivery process to hasten it. Examples are self-service cafeterias and buffet lunches or dinners. The idea is to keep their employees at a number not exceeding the one that exists during lean hours and let the customers do the job through their involvement.

Whereas it may work for buffets and cafeterias and ATMs, it may arouse feelings of dislike for certain other jobs that customers may have to do by themselves. Just think of a minor service of checking the tire pressure of your car or motorbike. Your involvement as a customer who has to do it himself may take you to another location where you are fully served. Businesses have found many services getting choked up due to customers' inexperience or dislike and therefore they have to be sensitive to the nature of business they are in.

Sharing facilities: Many firms may like to share facilities with other firms to improve their capacity. To internationalize its service, a courier service may like to get into such an agreement with another firm that may offer to handle the wishing company's business internationally, as long as it is not a threat to the offering company's business and offers viable commercial attractions. Actually, the offering company may get into some other kind of venture with the wishing company to make gains on another account.

Outsourcing: Yet another important approach to capacity enhancement, outsourcing works well for certain industries like catering and data processing. A better decision is to outsource to another outfit the peripheral services and not the core. A catering service outsourcing part of the food is not doing it for the core product, which is a composite of specializations in different kinds of foods, menu management, and a unique style of delivery.

Outsourcing frees up a company's time for the core service products and hence giving it more capacity. Outsourcing jobs like "data processing" is very popular for the reason that it may not be the company's core product. Call centers are a classic example of outsourcing of voice data handling and management. Think of a call center that handles the operations of huge retail stores and airlines.

Even HR function is nowadays being outsourced to HR consultants who specialize in functions like hiring, staffing, keeping employee records, and maintaining other HR information systems.

Demand management strategies¹

There are basically three strategies that companies can use to manage demand.

- Shift usage to a lean period
- Decrease usage at the peak period
- Stimulate usage during lean period

Shifting usage to a lean period has some advantages. By shifting usage we do not lose business. Service quality is not affected. Income is not lost. Efficiency improves, for we can bring the business to an

optimal level. However, whether or not we *can* shift usage is a question. The answer lies in understanding the demand pattern and the causes of variation.

Shifting the usage depends, in many cases, on customers' ability to have control over the causes of fluctuation. If customers use a particular bus service for commuting to office in the morning and back home in the evening, this business cannot be shifted, for customers do not have control over the cause that may actuate them to shift the usage – getting to office and home at timings of their choice.

Services on which customers can exercise a control relating the cause of shift, sellers should try to actuate that shift with certain incentives. Incentive-based shift may work for air travel in the case of those travelers who may opt to travel during the week days at lower rates. In such a situation, airlines can shift the week end rush to the week days for those who are willing to accept the shift.

Decreasing usage becomes inevitable when usage cannot be shifted and demand has exceeded the supply.

Stimulating demand during the lean period is done in a bid to utilize the resources and ensure there is no wastage. Hotels at resorts can get into this mode during slow periods. Restaurants do the same thing if demand is low for lunch; they may opt to start a breakfast service to fully utilize all the resources that stand committed to the operation.

Tools for managing demand²

Sellers have at their disposal the following tools they can use as strategic moves to better manage demand. These are:

- Reservations
- Differential pricing
- Communication

Reservations are used as a standard practice by professional services like medical, legal, and consultancies of different kinds with the basic objective of managing a consistent customer inflow and hence demand. Services like hotels, restaurants, and airlines also do the same to ensure availability for their customers upon arrival and thus managing demand in an optimal manner. In addition to guaranteeing availability of the service, the sellers can shift demand and hence the usage to periods, which are desired by sellers for being more practical. They will never let the customers know of this move, who will upon revelation of this maneuver be annoyed.

Differential pricing is another interesting tool available for managing demand. A low price for low demand period and a high price during high demand period are reflections of a differential pricing model.

Incentives during low demand periods and higher prices at peak demand periods are the moves companies make. Incentives during low demand period may stimulate demand, while higher prices during peak periods help to curtail excessive demand and shift it to low demand periods. Demand will decrease in the case customers are not willing to pay a higher price. This may not cause a loss to the company that in any case is not in a position to entertain the excess demand.

Using high differential pricing is a good strategy, for it brings in more revenue regardless of whether demand can be shifted or not. It is even better if demand consistently exceeds supply. And, it is best if the shift takes place!

It is for this reason that airlines have a unique system of charging you a higher price as and when plane capacity increases. Same is the case with hotels and business centers.

Communication of the strategic moves lets customers know what companies are up to. Whether they are stimulating demand or shifting usage, there has to be communication from the seller directed at

customers to know what is going on. Communication by employees can also be undertaken to educate customers about scheduling their activities in a manner most conducive to the sellers' work schedules. In an auto garage, workers can convincingly tell their customers the best time of the day they should prefer. In other words, the frontline or onstage component can easily convince customers to alter their demand.

Advertising can do a trick when companies announce their long working hours. The objective is to give customers the flexibility of visiting the facility by altering their demand pattern. When people know they can avail of a certain service after office hours, they will flex their schedules. The problem, however, will occur, if most of the customers shift their usage after office hours. Given that, communication from the staff can help a lot.

Communication by customers to other customers is yet another way of spreading the word around for the intended strategy. Customers tell other customers from their experience about which time of the day or the season is the best time to buy a particular service. This helps others in altering their demand patterns if they can.

Coping with fluctuating demand³

It basically relates to flexing supply and expanding it to absorb an upsurge in demand. There are a few strategies at the disposal of sellers, but the ones that are most common among many of them are:

- Going for part-timers
- Having existing staff work overtime
- Cross-training, and
- Outsourcing

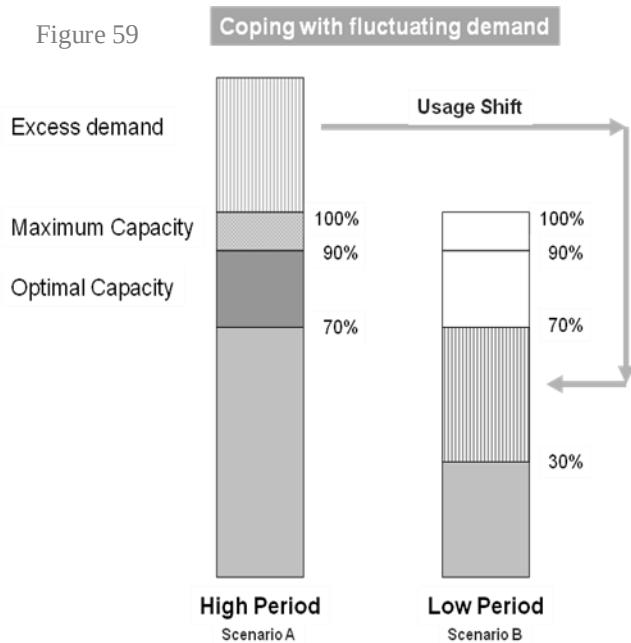
Part-timers are good for low-skill jobs that are offered by sellers of cost efficiency position. Conversely, regulars are not good for such positions, for they add to costs. Regulars are best suited to businesses that are into customization and functional quality positions.

For services like tax consultancies or accountancy firms, part-timers may not be as useful as regular ones putting in overtime. This owes to special skills and knowledge about the jobs that are undertaken by the staff.

Outsourcing is another popular strategy that works in both cost-efficiency and customization positions. Cost efficiency position can relate to catering and janitorial services etc. Customization can relate to consultancies and HR etc. Many consultancy firms hire freelance, but highly qualified personnel whenever there is an upsurge in demand making expansion of capacity inevitable.

The fact remains that fluctuating demand can best be managed by a mix of both supply side and demand side strategies. This implies *expanding supply* and *curtailing demand* at peak time. Most companies will expand their capacity first to the maximum. Thereafter, they get into curtailing the peak demand. By doing so, they can maximize their revenues. The phenomenon is illustrated graphically in the accompanying figure 59.

Figure 59



The presentation is self-explanatory. However, what is of interest here is the shift that is shown taking place from “high period” to “low period”.

Yield Management⁴

This concept is about balancing capacity utilization, pricing, market segmentation, and financial returns. Basically a pricing tool, it seeks help of a methodology that maximizes revenues based on a detailed analysis of the past purchase behavior of different segments a company serves.

The analysis is carried out with the help of computer-based models that use historical data and sophisticated mathematical algorithms to come up with a mix of pricing for different segments. By selling at differential pricing, organizations find the best balance among the prices charged, available capacity, and the segments to which the capacity is sold. The objective remains to maximize financial returns from the capacity.

The model is extensively used by the airlines industry and works opposite to the concept of running out stocks of tangible goods. In case of tangibles, the arrival of a new model or design may make the existing stocks less attractive and force sellers to start reducing their prices in order to make room for the new model. Yield management, conversely, starts with selling at the lowest price and gradually builds up on pricing as capacity starts receding.

As an example, an airline instead of selling all 200 seats at PKR 5,000 each and generating PKR 1 million would like to maximize this level of revenue by keeping the base price of 5,000 for a certain segment and charging higher price to other segments. The accompanying graphical presentation as figure 60 makes it clear.

Yield Management

Figure 60

People who buy tickets early pay less; they are price conscious customers. Those who come later pay more. They may still be price conscious customers or leisure travelers; they pay a little higher for buying a little late. The ones who are further late pay even more. And, those who are the last ones to buy tickets are the ones whose schedules are inflexible; they have to fly for business or emergencies due to which they buy almost at the last moment and at the highest price. The interesting phenomenon about yield management is its ability to maximize revenues in any situation.

Seats	Price	Revenue
90	45% 5,000	450,000
60	6,000	360,000
30	7,000	210,000
20	10,000	200,000
200		1,220,000

The revenue generated by using the yield management pricing model is 22% higher than the traditional way of working out pricing and revenue, which would have been PKR 1 mil.

If it is low period and sales are projected to be half the plane’s capacity, yield management still has the potential to bring the company more revenue than cutting the price to stimulate demand. Instead of giving a straight price cut, airlines offer different pricing even in a low period by offering different pricing to different segments and maximize revenues.

Yield management, however, suggests that sellers work pricing for different segments at different times. Therefore, we can say that yield management is the “process of allocating the right capacity to the right segment at the right price” to maximize revenues.

Yield therefore is a measure of the extent to which a company’s capacities can exploit its revenue generating potential.

How does the model work?

Once the model has worked out the potential capacities for different segments, the information is passed on to sales people and representatives who make bookings accordingly. Since the model is most successful in airlines and has been in existence for more than 20 years, decisions are continuously made on how many seats to give to which segment at what price; it may change on hourly basis.

There are two important conditions for this model to work:

1. A service seller has more than one segment to serve and those segments arrive for reservations at different times.
2. Those who arrive early for reservations are more price conscious than those who arrive late.

Over-bookings are done to compensate for “no shows”. In case they are more than it was projected or cancellations take place, the last minute sale at low pricing is initiated to stimulate demand generally through internet and also agents.

Challenges⁵

Along with benefits of revenue maximization, it also carries some disadvantages.

- Too much revenue focusing may result in a loss of competitive focus and hence quality of service.
- Customers get annoyed upon revelation of having paid more than others. Customer education is important for them to understand the reasons and rationale behind it.
- Employees feel a little down for not being able to use their judgment and discretion because of restrictions inherent in the working of the model.
- Employees may also not find it compatible with the rewards that they get against bookings.
- Employees may feel they have not been trained to effectively use the model.

Summary

The greatest challenge that sellers face is expansion of supply when demand for the service soars and filling capacity when demand drops. Tools to deal with both situations should be carefully considered and then applied to cope with the emerging situation. Differential pricing is an exciting idea that helps sellers look into the variations of demand patterns and then come up with the relevant price with the objective of optimizing revenues. It should reflect that proper considerations of flexing supply, shifting of usage, and offering customer-suitable timings have been taken into account.

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SERVICES MARKETING**Introduction**

This lecture is the beginning of our learning about closing gap 4, which occurs between service delivery and communication. One of the most important variables in the marketing mix, communication takes on added importance for services. For the reason that all that is communicated is a bunch of promises about what people do in the organizations, as against what is mechanically produced in factories for tangible goods, chances of things going wrong in services are high. Service delivery, therefore, is highly vulnerable to the ability of a company to keep promises. If promises are broken, then there is a gap between service delivery and the promises made – gap 4.

Causes of service communication problems¹

There are four major causes:

- Inadequate management of promises
- Inadequate management of expectations
- Inadequate customer education
- Inadequate internal marketing communication

Inadequate management of promises: Lack of management stems from a tendency to over-promise the delivery. This is due to certain pressures on employees to generate new business and add to revenue in a competitive environment. Not realizing that this might work in the short run giving the company initial sales and is bound to generate disappointment in the long run employees still get trapped into this false philosophy.

Lack of proper education of employees, company advertising and promotions may also work at odds with actual capabilities and hence causing over-promising. The supply and demand situation may also cause certain situations leading to non-fulfillment of promises.

Inadequate management of expectations: Over-promising leads to building unrealistic expectations, which again disappoints customers during encounters or after they have purchased the service. Claims about marketing and operational capabilities are exposed when actual buying takes place.

Marketing is a reflection of all the quality dimensions. Customers find out during the encounter that employees do not really fall on the merit of different dimensions like reliability, responsiveness, assurance, and empathy. Similarly, operations are all about the delivery of the service according to the promise made. Broken promises show themselves immediately and the net effect is a gap. Lapses on both the marketing and operational front converge at the same point and compound the gap.

Inadequate customer education: If customers are buying the service for the first time, they have to be educated about the precise features of the service, sellers' role, customers' role, and any limitations that may later cause inconvenience to customers and embarrassment to sellers. Clarity of features is essential while the service is negotiated.

As an example, first time HAJJ and UMRA performers must be educated about what will be offered during the rites and what will be the responsibility of the customers to keep any ambiguity out of the equation. Not only that, customers should also be educated about the criteria against which they can evaluate the service during pre-purchase, encounter, and post purchase. Companies that are confident of the quality of service delivery will manage this aspect without any apprehensions of losing business. They may prefer losing some business than having dissatisfied customers at the end of the service thereby keeping the gap minimal and negative word of mouth at bay.

Inadequate internal marketing communication: This is a reflection of ill-coordinated efforts among different functions of the organization to work for the same goal. Horizontal communication that should take place among functions does not go on resulting in not keeping everyone informed or getting everyone's input. Any miscommunication between any two departments like marketing and operations or these two and the HR can cause a situation that may create missing links and hence disintegrated communication.

Until marketing communications are fully integrated and spread across the organization, it is quite very difficult to keep all the employees informed of real communication objectives. Informed employees get motivated to offer a service in a manner that minimizes the gap. Therefore, there is a tremendous need for coordinating marketing communications.

There are a few more factors in addition to inadequate internal communication that build unrealistic expectations. The availability of competitive offerings, customers' perceptions of competitive offerings and the general word of mouth play a role toward that. Also, the sheer fact that customers have certain needs to fulfill, they develop certain expectations. These factors are of such extraneous nature that it is difficult for the company to control them. The company, however, can control the tools of communication at its disposal in a way that the impact of extraneous factors gets subsided.

The need to coordinate communication?

The foremost objective of having a well coordinated communication is to control its tools like advertising, personal selling, and the promises made by service personnel so that they can influence the customers' expectations. By controlling these tools, the company can influence expectations that may have sprung up through the extraneous factors. Therefore, there is all the more need for having a well-coordinated communication effort.

The fact that there is a vast variety of tools available to marketing people, the need to integrate the marketing communication effort gets pronounced. Tools go beyond traditional advertising, promotions, and personal selling into the areas of internet, web-based advertising, and a host of promotional possibilities like coupons, contests and the like. Whichever options a company may like to exercise as a mixed bag of tools, those must be integrated in order to have an impact. Integrated marketing communication (IMC), actually forces sellers to consider all the tools and vehicles and relate their application to any given service at a given point in time.

Owing to a unified effort, reflective of IMC, customers receive just one consistent message with no conflicting meanings and connotations. Customers are targeted by two types of marketing communications – external marketing and interactive marketing.

External marketing is all about different nature of advertising, personal selling, and all other vehicles that we are familiar with to create *awareness, persuade, remind, and induce* action. We also know that it is where the action starts in making the promises that sellers make with customers.

Interactive marketing is the stage where providers (employees), franchisees, and licensees communicate with customers. Suppliers' interaction with providers is also part of the interactive marketing. We also know that interactive marketing is the stage where real action takes place. This is where providers communicate at the servicescape. Therefore, this is the stage where promises are either kept or broken on the basis of realistic or unrealistic communication.

Before gap 4 is minimized, sellers have to ensure there is no gap between external marketing and interactive marketing. It is of utmost importance that the *messages sent through external marketing are consistent with the actions during interactive marketing*.

For the reason that internal, horizontal communication is important for creating an enabling environment in which consistent communication takes place, internal marketing takes on its added importance. Unless

employees all across the organization understand the rationale behind communication and their inputs are considered there is no way they can communicate with one voice and a unified message.

Objectives of communication

In order for us to have a renewed understanding of what communication tends to accomplish hereunder are a few of the important objectives that sellers always consider. Some of them reflect generality in terms of both goods and services, while some are typically reflective of services.

General

- Identify the target market (potential and existing buyers and all those who influence decision to buy).
- Determine the communication objectives (awareness, knowledge, liking, preference, conviction, and purchase).
- Decide on a budget (allocation to total campaign and individual parts).
- Create a message (what to say, how to say, and who will deliver the message).
- Choose media (personal selling, non-personal, targeted vehicles like magazines etc., and direct mail).
- Collect feedback (basically researching how effective communication was).

Services

- Reduce purchase risk
- Reduce cognitive dissonance
- Increase purchase probability
- Reinforce repeat purchase behavior
- Enhance customer satisfaction
- Develop company image and brand equity

Cognition is a mental process through which knowledge is acquired; dissonance is the conflicting and disagreeable state that causes inconsistency and lack of clarity and hence cognitive dissonance keeps customers from fully understanding the service.

Summary

There are four areas that cause communication problems. To address problems caused by these areas, there is a need to integrate the communication process. All the available tools should be carefully considered for coming up with the most appropriate communication program in light of the objectives of communication. Keeping focus of the objectives keeps managers on the right track and the desired strategic direction.

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1. Valarie A. Zeithaml and Mary Jo Bitner, “Services Marketing – Integrating Customer Focus Across The Firm”, 3rd edition; McGraw Hill (450-452)
2. Ibid (447-450)

SERVICES MARKETING**Introduction**

All the four areas that cause communication problems need to be managed in order for the communication gap not to occur. The lecture therefore looks into all these, one by one, to enhance understanding of the requisite management of the areas.

Managing promises¹**Effective advertising**

Overcome intangibility: One strategy is to have effective advertising given the fact that services are intangible. Intangibility makes ad-making even more creative than it is for goods. The reasons are:

Services are incorporeal. This implies services are neither made of physical matter, nor they occupy physical space. The delivery mechanism does involve physical space, but the service itself does not. As a strategy, a service has to be physically represented with equipment and the space occupying that equipment.

Services are abstract. This means that services are not objects and, therefore, more difficult to visualize.

Services are characterized by generality. This again highlights the character of services as that not of goods or things. Services are talked about in general terms like a wonderful service, highly satisfying, and a unique experience.

Services are non-searchable. Services cannot be previewed, especially the ones rich on experience and credence properties; these are performances.

Services carry mental impalpability. This implies services are complex and difficult to understand by customers; they cause cognitive dissonance. It occurs due to lack of exposure and early experience with services.

An understanding of the intangibility in detail lets managers go ahead with the rest of the strategies.

Use narratives to demonstrate service experience: Researchers and practical experts have determined that story-based narratives are more convincing than just talking about attributes of a service. A banking corporation giving the story of money-transfer from a foreign country to remote location in our country will communicate all the features and imprint pictures and visuals in the minds of customers.

Present vivid information: This calls for creating strong impressions on the minds of customers by creating a distinct mental picture and evoking certain emotions. One way of doing it is through dramatizing certain socio-cultural customs, arousing patriotic feelings, and presenting product features with visuals strong enough to make the features of the service amply clear and vivid in customers' minds. Such evocation leaves strong impressions on the senses, arouses emotions, develops association with the service brand, and activates trial of the service. Reference to a few of mobile telephone companies' commercials (Mobilink, Ufone, Telenor, and Zong) makes us appreciate the essence of this strategy.

Show the tangibles: This pertains to tangibilizing the intangible. You show the tangibles associated with the service to create a positive impression on the customer about your service's credibility. There are four strategies to do that:

- Association (linking a service with person, place, or object)

- Physical representation (showing tangibles as part of the service)
- Documentation (featuring data and factual info)
- Visualization (creating vivid mental picture of a service's benefits)

Association: Distance learning at VU's campus can be associated with the hard work of the founder rector and a couple of other important governmental functionaries who have contributed to elevate the university to a point where it is today. Or, it can also be linked with the grandeur of the campus, which is huge and is equipped with all the facilities.

Physical representation: VU's physical representation can be done through showing IT and telecom paraphernalia and the vital support systems that give the virtual vehicle of distance learning great tangibility.

Documentation: This can be shown in terms of its accreditation from the Higher Education Commission (HEC) and associations with other institutions that make it a credible university. Factual data relating the student body can also be used.

Visualization: This can be undertaken by showing ex-students working as professionals with good organizations. The visuals can be dramatized with expressions of achievement and testimonials of credit to their alma mater.

Feature service employees in communication: This helps creating a good impact on the primary audience, which is customers and the secondary audience, which is employees. Employees talking about their services take a realistic view of the delivery and hence the promise made. It creates a sense of sanity among all to make a promise that has company-wide support. It also sets examples for others to emulate those employees who represent the company in communication.

Promise what is possible: Good communication should promise only what can be possibly delivered. Making good, attractive advertisements should not be the objective. Delivering on the promise is the objective. Therefore, only what can be delivered should be the focus of communication.

Encourage word of mouth: Because of services being rich on experience and credence qualities, customers will turn to other customers for their referrals. Only satisfied customers will give referrals. Testimonials should be created and made part of the communication. When found credible, people talk about them and the word proliferates.

Feature service customers in communication: This featuring also leads to generating positive word of mouth.

Use transformational advertising: This is creating strong visuals that capture the complete consumption and customer experience. Hotels generally follow this approach. By showing a real life visual, they can attract customers to consume a service, which customers may find as they have seen.

Banner advertising: This form refers to banners posted on various websites with appeal to the target segments. The utility and effectiveness of banners is judged by the frequency of click-through, meaning how many prospects click the banner that can take them to the site of the company. According to reliable information, the frequency of click-through has receded over the years. People seem to have lost interest due to a banner clutter that has taken a toll on the novelty of the idea and has made it commonplace leaving not much interest with people to use this vehicle. One research reveals that in order to revive or get close to the initial interest, advertisers have to increase the size of the banner in order for it to create interest.

Coordinate external communication

External communication consists of advertising, public relations, personal selling, and internet. In case of services we may as well add service encounters, customer service desks, and telecommunication.

Two important elements of this strategy are:

- Consistency of message through external communication, and
- Complete consistency between external and interactive marketing.

If the interactive area of action can deliver what is promised, it is a reflection of an effective enabling environment that practices good internal marketing. The fact is that much of the brand image and equity are developed through consumer experiences.

Make realistic promises

High expectations are a reflection of great promises. Customers walking into a facility with high expectations expect a high level of service delivery, which if not received leads to customer dissatisfaction. It is important for the company to know its own history of employee behavior and the level of service delivery. Sales people must have complete data about the percentages of successful and unsuccessful deliveries before talking about reliability in the advertising campaigns. The service level must reflect what is talked about in communications.

Offer guarantees

This strategy is generally found reliable by customers. They feel convinced that what the company is talking about is really meant. Thinking that the company will stand behind its promise infuses trust into customers.

Managing expectations²

The objective of this strategic area is to create conditions whereby companies can tell their customers that the service is not what they think and expect. They, however, must do that in a way which is not just plain talk; they rather should develop service products that fit into customers' specific requirements for different situations and then communicate the same. The following strategies are reflective of this area's management.

Offer choices

Sellers can align customer expectations with the service delivery by offering meaningful choices in absolute clarity. Choices are made on time and money. Customers wanting a service faster than normal should pay more; the choice of lower price and a delayed delivery can also be offered to those who are willing to accept that.

If the basis of choices and the related price and delivery timeframe are transparently communicated to customers, they will reset their expectations from the service seller.

Develop line extensions

Just like manufacturers of goods develop different versions of their models ranging in price and value, services sellers should also follow suit. For premium services of good reputation, a premium price should be charged, while a less valued service should carry a lesser price tag. The objective of this exercise should be to let customers know the limits of their expectations.

Credit cards and membership cards carry different tiers in terms of benefits to customers. This exemplifies the idea of developing line extensions.

Communicate criteria and effectiveness of service

Sellers should develop criteria for customers to assess their service. This makes it easy for customers to evaluate the service and feel comfortable about their decision to buy that service. A company specializing in development of software should let its customer know the effectiveness of the package, the competitive advantage it has over the competition, and a step-by-step approach to evaluate the package.

Once the customer has the criteria to evaluate, he will know whether or not the product really falls on technical quality dimensions and addresses his fears relating experience and credence properties of the package.

Summary***Bibliography***

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SERVICES MARKETING**Introduction**

This lecture continues with managing communication and ends with discussion on the concept of pricing as it should apply in services.

Improve customer education¹

Customer education is done by sellers in order for customers to clearly know the features of the service along with the criteria to evaluate that service relating its competitive position. It therefore is the responsibility of the seller to fully update the customer during encounter(s) about how the service fulfills customer needs and offers various features to the benefit of the customer. The strategic recourse to the area's management is the following.

Prepare customers for the service process

In order for complex services to be understood by customers it is the responsibility of the seller to explain the whole process in detail. For example, if a consultancy firm knows it is beyond the customer's capability to install the new systems and procedures that are backed by sophisticated technology, the firm must recommend to the customer to buy the service in two parts; one, in development of systems, and two, in having the systems implemented by the seller to train customers' employees. Although it will be expensive for the customer, yet it is beneficial for him to make the best use of the newly installed systems toward process improvement. Ignoring part two of the deal will cause more harm than do good to the customer.

Seller also should inform the customer when the training will end. At the end, the seller must prove that performance has been according to the standards that were jointly established earlier. The seller and the customer must be convinced that the seller is leaving while the process stands complete.

Teach customers to avoid peak-hours

Experience shows that informing customers of the peak hours helps best in shifting demand than any other strategy like putting more people to serve customers.

Manage internal marketing communications²

Following are the two effective ways of doing this:

- Create vertical communication, and
- Create horizontal communication

Vertical communication is the downward and upward communication. Downward communication flows top-down, while upward flows bottom-up. The one that flows downward consists of newsletters, magazines, internal TV networks, and employee recognitions etc. The objective is to keep the employees informed of what is being communicated to customers along with any internal measures that affect all. Good companies let their employees see the advertisements and commercials before those are published or aired.

There is a great benefit that flows out of this approach. Employees communicate what customers hear from the external communication. Another benefit is that employees do not feel surprised or uninformed to find out anything new or strange from the customers, for they already have the knowledge of what company is doing.

Upward communication is also beneficial, for it allows the front end employees send upwards to the top management very useful information about customers. For being at the front, they are the ones who understand how customers think, what delights them, what is deliverable from customers' perspective. Top management can then make some useful decisions of strategic nature.

Horizontal communication is a well-coordinated effort among different departments to improve the delivery of the service. The need arises from the fact that different departments have different outlooks and philosophies about customers and hence their own perspective of service delivery. This leads towards a gap among all of them. Therefore, better coordination between marketing and operations can lead to better delivery, between marketing and HR toward creating better marketers, and between marketing and finance toward working out the best price for the service to sell at.

In addition to opening channels among different departments, communication can also take place between these departments and customers for the former to understand what the latter exactly want.

Such communication gives the non-marketing people a true perspective of customers and let them work in a better coordinated way with marketing. They serve marketing people well as their internal customers. Some good companies have started the practice of exposing their back-end people to the customers to acquire such a perspective. Actually, featuring employees in advertisements is also an effort toward achieving the goal of having non-marketing people committed to goals.

Another strategy could be that of creating cross-functional teams that communicate with the customers in the presence of marketing people. It serves two purposes. One, marketing people cannot over-promise, and two, marketing people get the required support from other departments toward a service that gets aligned with customers' expectations.

The four areas, if managed the way the above strategies dictate, effectively lead toward minimizing gap 4 as shown in figure 61.

Strategic Direction to Close Gap 4

Figure 61



Summary – Communication

The four areas causing communication problems are over-promising, unrealistic expectations, lack of customer education, and the lack of integrated marketing communication. It is only logical to manage these areas smartly to be able to close gap 4.

Managing promises is all about coordinating communication efforts by effective external and interactive marketing. Managing expectation is a realistic effort by sellers to tell customers they cannot always get what they expect. Educating customers is all about making them aware of the service process and giving them criteria to evaluate service. Internal marketing communication is transmitting information across organizational boundaries to align all functions with customer expectations.

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SERVICES MARKETING**Introduction**

This lecture enhances our understanding about the concept of pricing, so familiar to all of us from other fundamental courses of marketing. The learning here centers upon the role of pricing in services, determinants of pricing, price elasticity of demand, and the approaches service managers have available to them as strategic pricing options.

Role of pricing¹**Quality indicator**

In the words of an expert, pricing is both an attraction variable and a repellent. Both high and low prices can be interpreted by customers as carrying services of good and not so good qualities. Actually, when service cues (signals) are strong, then high price gets accepted. Signals like brand image, advertising claims made for brands, guarantees offered, and overall reputation support high price. Customers take such signals as that of good quality and hence draw a relationship between good quality and high price. They feel more comfortable spending more on services that take away the psychological costs and fears.

When signals are weak or non-existent, customers do not want to spend money more than they think the service is worth. They would go for low price and try the service with not much money losing risk attached to it. In such situations, customers take low price as an indicator of low quality.

Customers, therefore, think there definitely is a relationship between price and the level of quality, the higher the price the better the quality and vice versa. However, an unknown company introducing a service without good reputation and the requisite communication support may not be able to attract customers toward a high price. High price, in other words, has to be supported by the signals discussed above.

Balances supply and demand

Another important role played by price is that of a balancing agent in peak demand situations. It shifts demand to low demand periods and we have learnt the role played by techniques like “Differential Pricing” and “Yield Management”. While high price keeps demand at the optimal level, low price stimulates demand during slow periods.

Price Determinants²

The following factors help companies determine the final price of services for their better marketability:

- Pricing objectives
- Cost analysis
- Demand-price schedule
- Price elasticity
- Competition
- Operational position

Pricing Objectives: Pricing is done in line with achievement of four different objectives:

- Profit maximization
- Sales maximization
- Market share maximization

- Competitive parity

When objective is profit maximization, companies go for a price that yields the highest potential profits; when the objective is sales maximization, the pricing should yield the highest possible revenue with profit constraints; when the objective is market share, the price should get the highest share again with profit constraints; and competitive parity gets companies a price very close to that of competition.

Demand - Price Schedule

Figure 62

Selling Price/Unit	PKR 60	PKR 55	PKR 50
Schedule	I	II	III
Units	130	146	170
Revenue	7,800	8,030	8,500
Var. cost PKR 25/unit	3,250	3,650	4,250
Margin	4,550	4,380	4,250

Profit maximization

Sales maximization

Cost Analysis: This analysis is basically done to take into consideration two groups of costs – variable costs and fixed costs - in order for the company to arrive at the most appropriate gross margin figure. Gross margin must offer the company the opportunity of covering the variable costs and also ensuring a good return toward the fixed costs. How much margin is desirable is a function of the objectives. The margins will be lower in case of market share maximization.

It, however, is the objective of every company to improve margins regardless of the overall pricing objective. Companies undertake continual process improvement programs to improve margins and maintain prices. Banks, nowadays, are a case in point. With internet banking, banks find it more economical to do online consumer banking. Customers also do not face the necessity of having to go to the bank and, hence, save time.

Demand/Price Schedule: To check the sensitivity of demand at various price levels, companies must work with different price levels and see how much demand is affected. They gauge the margins that different price levels offer the service. For that it is important that companies work out total revenue and variable costs to see how much is left to cover their fixed costs.

Depending upon the pricing objective, we go for the schedule that is best in line with it. From the schedule that appears as figure 62, it is obvious that schedule I is ideal for profit maximization, while schedule II is suitable for sales maximization.

Price Elasticity: PE of demand is the percentage change in demand as a ratio of a percentage change in price. This is described as under:

$$\frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$

If the change in demand is greater than the change in price, then the price is elastic. If the change in demand is less than the change in price then the price is inelastic. For example if a 5% increase in price leads to an 8% drop in demand, then the change in demand is greater than the change in price, hence price is elastic.

Obviously, businesses *do not want to see* price elasticity when they increase price. They like to see the volumes stick around the same level and add to their profits by selling the same volumes at a higher price.

For the obvious reasons again, businesses *like to see* price elasticity when they decrease prices, that is, they like to see demand surge greater than the decrease in price, so that total revenue increases. In this situation, firms, however, have to be careful not to increase volumes and revenues in a way that they lose contribution margins, which cannot compensate for the costs. If price decrease does not generate greater profits, it may not be worth the decision. It is important for the suppliers to determine the nature of demand their service carries and then make any pricing variations.

Competition: If prices of a company's services are adjusted at great variance from that of competition, then its services will have great price elasticity. Customers will opt for competition.

Operational Position: Cost-efficiency firms will opt for lower prices; their objective is to maximize market share. This means high volume, which is the lifeline of cost-efficiency position. Customization and quality positions will carry high prices, but then they also have to be careful about the existence of competition and the realities of the marketplace.

Approaches to pricing³

We can easily conclude from the pricing determinants that the following three approaches seem quite common:

- Cost-based pricing
- Competition-based pricing
- Demand-based approach

Cost-based pricing is a reflection of the cost analysis and the demand-price schedule. It is based on the premise that companies add all the costs and a portion of profit to it and arrive at the final price. However, there are some difficulties inherent in this approach with regard to tracing and identifying variable costs. Such costs are input units of labor from different employees and are difficult to identify and cost when different levels of expertise are contributed by a host of employees to produce heterogeneous services at the same time. This costing approach is common among those industries in which pricing has to be worked out in advance, like advertising, engineering and construction.

It is not too challenging to have the variable and fixed costs associated with an engineering project worked out in advance. Same is the case with advertising, for agents know all the rates for different communication tools charged by the media.

It also is in vogue in services like medical, legal, and consultancies of the kind that need to bill their customers on hourly or a basis of time frame. Here, the sellers have to be a little careful and marketing savvy to charge according to the complexity of the case in addition to the input of time as units of labor.

Competition-based approach makes it imperative for sellers to follow and stay close to each other as part of the market dynamics. This approach is used predominantly in two situations: 1) when the services are highly standardized like courier services or dry cleaning; 2) when there is an oligopoly of sellers in a certain market, meaning a few large suppliers. Industries in both the situations work by "price signaling" and the "going-rate" policies. Price signaling is any price offered by one company and it is matched by others, for example in transportation industry on different routes in most of the cases. Going-rate is charging the rate most prevalent in the market place.

There is a disadvantage inherent in this policy from the standpoint of small providers, who may not be able to afford either of the policies for the reason both may offer smaller margins than are mandatory for them to sustain and exist.

Demand-based approach takes into consideration the issues of reference pricing, non-monetary costs, and judging quality on the basis of price. The price is established in line with customers' perception of value. What customers value the most becomes the basis of pricing.

Different customers look at value from a different perspective and therefore companies should have different strategies to price services in line with different values of customers. One factor that companies must consider is the non-monetary costs. If taken care of, these cost factors may also become benefits for customers.

In other words, if a service causes time, inconvenience, search, and psychological costs, price should be adjusted accordingly to compensate for such costs; if service saves time, search, inconvenience, and psychological costs, then customers should pay a higher price. The challenge is to determine the value of each non-monetary cost so that such factors along with the costs sellers incur are built into the pricing from a value standpoint. Sellers must understand what is valued!!

Summary

Pricing determinants are carefully considered by sellers in line with their pricing objectives. This calls for clarity on their part on objectives. Only then, they can realistically bring the determinants to support the approach they want to take toward pricing of their service(s).

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SERVICES MARKETING**Introduction**

This lecture is a continuation of the concept of pricing approaches. Four important categories of customers are discussed along with strategies. The strategic direction is discussed taking into account what is “valued” by customers falling within the four categories.

Customer categories¹

What constitutes value for customers has been categorized as the following four different scenarios:

- Customers who care about low price.
- Customers who must get everything they want in a service.
- Customers who think they will get the quality for the price they pay.
- Customers who think they must get all for all they pay.

Customers who care about low price:

The greatest value to customers comes through the lowest possible price. The least these customers pay or the more money they save on deals, the more they think they have gotten the value. This is not to say that such customers are not quality conscious people. All they look for is who can sell at the lowest price.

To offer value, sellers have a few strategies in store for them, knowing that their customers consider a low or a lower price as the best value.

- Discounting
- Odd pricing
- Synchro-pricing
- Penetration pricing

Discounting is done at various occasions to make deals look like special ones. Fast food restaurants get into this strategy.

Odd pricing is done by not rounding off the last unit of the currency and charging 19.99 instead of full 20, as an example.

Synchro-pricing basically is meant to create a balance between supply and demand. This can be achieved thru

- Place differential
- Time differential
- Quantity differential

As we can see it is basically the application of the concept of differential pricing.

Place differential can be charged where customers have sensitivity to location. Front row at a performance and the location right next to the players’ pavilion in a cricket match are examples of higher prices. Going to the contrary of this we can establish lower prices for customers who value that.

Time differential can be exemplified by lower rates on phone calls post 11PM period.

Quantity differential can be exemplified by corporate customers getting into contracts with hotels and car rental companies to have special rates.

All the differentials are basically meant to offer incentives.

Penetration price is another strategy that works well for attracting customers. But, it is a tricky one since customers get used to the penetration price not accepting later price increases to go on to the regular level. It is offered when competition is intense and customers are not willing to pay more than the penetration price and the sales volume is sensitive to a lower price.

Customers who want to have everything they want:

They are the ones to whom price is not important as a value; they rather have their focus on benefits which the service offers and derive value out of that component of service. In the education industry, some people may like to go for the highest tuition fee a school charges, for they develop a strong relationship between price and high quality. Suppliers can have two strategic areas for such customers:

- Prestige pricing
- Skimming pricing

Prestige pricing is charged for offering a service of high quality that also carries prestige with it. Hotels, airlines, and certain restaurants get into prestige pricing, for their customers derive tremendous value out of the high end of the service meant for exclusive customers. Flying in first class, offering presidential suites in hotels, and offering access to the restaurant with limited seats are a few examples. Under prestige pricing, demand may soar with an increase in the price of the service.

Skimming pricing is charged when a new service with prestige is offered. The condition remains that the new service must have some kind of meaningful improvement over the existing service. Upon introduction of the double-decker plane (Airbus 380), customers were willing to pay any price and they demonstrated that willingness for all the classes upon the first inaugural flight by Air Singapore from Singapore to Sydney, Australia.

Customers who think they will get the quality for what they pay:

They are the ones who believe in the trade-off between what they pay and what they get. These customers are pragmatic customers and know they are a target of suppliers in view of their spending power. Providers get into segmentation and offer customers services with varying tiers of value. This is done through

- Customer category
- Service category

“*Customer category*” makes it necessary for providers to charge a price lower than the regular price, for example, prices in a cafeteria at a university. The seller may adopt operations that can lower the cost of service as compared with that of restaurants. The cost in certain cases may be the same as elsewhere, yet the seller goes ahead with the service to offer value to a certain segment.

“*Service category*” strategy is offered when sellers realize not all customers want the basic service and thus they add a few more value related attributes to their service and then charge a price compatible with those.

The above example can be taken the other way around, that is, a seller getting into restaurants from the original business of cafeterias. This amounts to getting into “service version” from the “customer category”.

Customers who think they must get all for all they pay:

They are the ones who are sharp assessors of the service and want to have maximum benefits against all the costs they think they incur – including non-monetary costs. Such customers are less loyal and therefore prefer those suppliers who can offer them better value at an attractive price. As strategic moves, suppliers get into the following pricing patterns:

- Price bundling
- Complementary pricing
- Result-based pricing

Price bundling is putting a couple of services together and selling them as a package and not as individual offerings. Actually, whenever customers buy products after finding strong complementary relationships between them, sellers must capitalize on the opportunity and get into forming a package of those products only to offer value to customers.

By lumping together a few services, sellers can keep customers from confusion thereby making their purchase process a little simpler. Also, sellers can do themselves some good by bundling products that are closely related. They have the opportunity to lump those into the package that are not fast sellers.

Sellers can offer the package at an attractive price by keeping the slow moving items on a lower price scale (internal working of pricing) thereby making the overall package look cheaper than the price of individual services. That way they do not have to offer discounts on fast moving items, the result of which is *better margins, economies of scale, and customer comfort*.

Bundling could be “Pure” and “Mixed”. Pure price bundles carry two or more products that cannot be separated as individual services and are sold as a bundle.

Mixed bundling carries products that can be purchased separately, but will cost less to the customers if bought together as a bundle. Hajj and Umra packages are sold generally as pure bundles, which keep components like tickets, boarding and lodging, and transportation all together not giving customers the choice of opting in or out of the package.

Fast food and telephone companies offer mixed bundles which customers may keep or customize as per their consumption and usage patterns. A combo meal is an example from fast food. A package offering a certain level of incoming calls, SMS, and internet usage may be offered as a mixed package. The most important consideration while establishing bundles is what really is perceived by customers as a value package. 

Complimentary pricing is done by offering value on the front end of the service and maintaining good revenue stream through subsequent sale of the service. It, therefore, is workable in situations in which a service is used on a continual basis. For example, a mobile telephone company offering a connection without security and other initial costs, but compensating for that through monthly billing on the usage of the service.

Result-based pricing is workable in situation of high uncertainty which may keep customers from making the purchasing decision. It is the responsibility of the seller to make it easy for the buyer to make the purchasing decision. Sellers tag the pricing with the result buyers want to get. An advertising agency or an attorney may get into an agreement with their clients to get the price only if the outcome is positive.

Different layers of pricing could be worked out and related with different levels of the outcome. Advertising agency can ask for 100% fee on 10% increase in sale and work out a downward sliding scale of pricing and the level of results.

The basis of demand-based pricing

The basis of demand-based pricing is the total value perception of customers about the service they want to buy. Sellers have to understand what is it that different types of customers value. An understanding of the benefits that customers value and look for should become the basis of pricing. For that, sellers have to answer questions like:

- What benefits they are looking for?
- How important are the benefits to them?
- In what context customers want to enjoy the benefits?
- How do they relate particular benefits with a certain level of pricing?

The answers will reveal it is the value that customers want in the first place and not the price. Once sure about getting the value they will then relate that with a certain level of price. On the other hand, sellers have clarity of customers' point of view on value, which helps them price the service. Customers' point of view is always a reflection of technical and functional dimensions of quality. After having explored that sellers quantify the monetary and non-monetary value to customers.

Summary - Which approach to follow?

Sellers have to understand their customers by categorizing them into which value proposition suits them the best. There are four categories of customers in relation to understanding their perception of the best value. Sellers have a mixed bag of pricing offers to choose from in response to those categories. The fact is that not all situations warrant one standard pricing approach. In most of the cases, sellers have to go for a combination of all the three approaches we have learnt. The nature of service, competitive dynamics, and the options of marketing mix give sellers leads into what approach makes better sense under what circumstances!

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SERVICES MARKETING**Introduction**

This lecture basically wraps up all the important concepts that we have learned throughout the course and then looks into how a good service impacts profitability of a company. We also will identify the performance measures for gauging the economic impact of a service with the help of the same concepts known to us. The performance measures, in actuality, re-emphasize in a summarized way our earlier learning. Interesting!

The recap

Services are different from manufactured goods and, therefore, require a marketing approach different from that of goods. The characteristics of intangibility, inseparability, variability, and perishability necessitate that we give services a marketing treatment different from that of goods.

The basic model of marketing mix for goods cannot be replicated into the area of services. Although basics remain the same, there are some important additions to the variables of marketing mix that all of us are familiar with. The additions stand in terms of people, processes, and physical evidence. These additions reflect the basic characteristics of services.

For the fact that services are intangible customers cannot preview services. They develop certain expectations about the quality of services. When they buy services, their experience generally is not what they expected causing a gap between expectations and perceptions (experience). In order to effectively deal with this possibility, sellers must understand the process of evaluation through which customers go. Evaluation by customers takes place prior to purchasing, during purchasing and post purchasing. The process is a behavioral model the understanding of which is a prerequisite to developing features and quality parameters of the service product as expected by customers.

Another behavioral model known as the gap model couples with the evaluation process and necessitates its understanding on part of the sellers. It lets sellers understand different levels of expectations of customers and then enables them to juxtapose this understanding with the one developed through the evaluation process to offer a service as expected by customers. Please refer to figure 20, lecture 13. The whole idea is to satisfy customers by offering quality. The relationship between quality and satisfaction, therefore, is highly significant and its understanding is an established precondition for carrying out effective services marketing.

Needless to say that the above understanding is developed critically keeping in view the classification of services.

No matter how hard sellers strive to offer quality service, something does happen to keep them from coming up to the expectations of customers thereby causing a gap between expectations and perceptions. There are four levels of gaps. Management of the four levels of gaps calls for carefully crafting strategic moves. These moves are summarized in figure 63.



The strategic areas as exhibited in the accompanying figure represent all the strategies that sellers have at their disposal to undertake services marketing programs. An understanding of this portion of the course, departing from lecture 15, gives us insights into all the tools that we can bring to our support as marketing managers of services. As such, the understanding developed during the first 14 lectures lays the basis for our actions that may have strategic overtones and applications in the form of areas and concepts summarized in figure 63. It needs to be highlighted here that gap 3 basically is minimized with the help of good people. Nevertheless, the strategies of “matching supply and demand” and “distribution” also help minimize the gap, provided these are formulated and executed by the right people.

Quality-Satisfaction revisited

Before we move ahead with performance measures we need to revisit the relationship between quality and satisfaction. Quality as described in the very first lecture is both one of the prime objectives and one of the greatest challenges for services marketers. The challenge stems from the experiential nature of services and the fact that customers develop certain expectations from services before they buy those. Coming up to the expectations amounts to satisfying customers.

Satisfaction basically is consumer’s fulfillment response. Consumer responds positively if he thinks his expectations are fulfilled. A satisfied consumer sticks to a service and goes through a service cycle, which means buying of that service repeatedly over a period of time. During the cycle, however, the levels of expectations change and marketers must manage those in terms of the variation in the adequate and the predicted levels of service.

The basic objective of any service sellers should be to develop highly satisfied customers, who are also known as “*apostles*”. They carry good word of mouth and talk about the service in public with a sense of conviction in the service brand. Effort should also be made to convert indifferent customers into loyal customers and also see there are no dissatisfied customers who could become “*terrorists*”.

Economic effects of service – profitability¹

In the absence of satisfaction, it is difficult to entice customers in the first place, and to retain them in the second. If satisfied and loyal, they tend to contribute a lot toward the service. Therefore, there is a significant relationship between a service and profitability. Good quality and satisfaction result in good reputation and positive word of mouth, which in turn result in the following:

- Market capture
- Better market share
- Premium price compared with competition
- Better profitability

The above can be explained with the help of figure 64.

Lower costs: Good quality and satisfaction result in retention of customers, which is less expensive than bringing in new customers – an expensive proposition due to high cost of communication and personal efforts to initiate and bring about a switch from competition. According to experts, attracting new customers is 5 times as much costlier as retaining a customer. Also, retaining 5% more customers can result in an increase in profits anywhere from 25% to 85%, as mentioned before in the course.

Reputation: Customer retention reflects loyalty of customers. Loyalty is a measure of good reputation. When the factors of good quality, good reputation, customer loyalty and customer add up, they lead toward cost efficiencies, high morale of employees and high productivity.

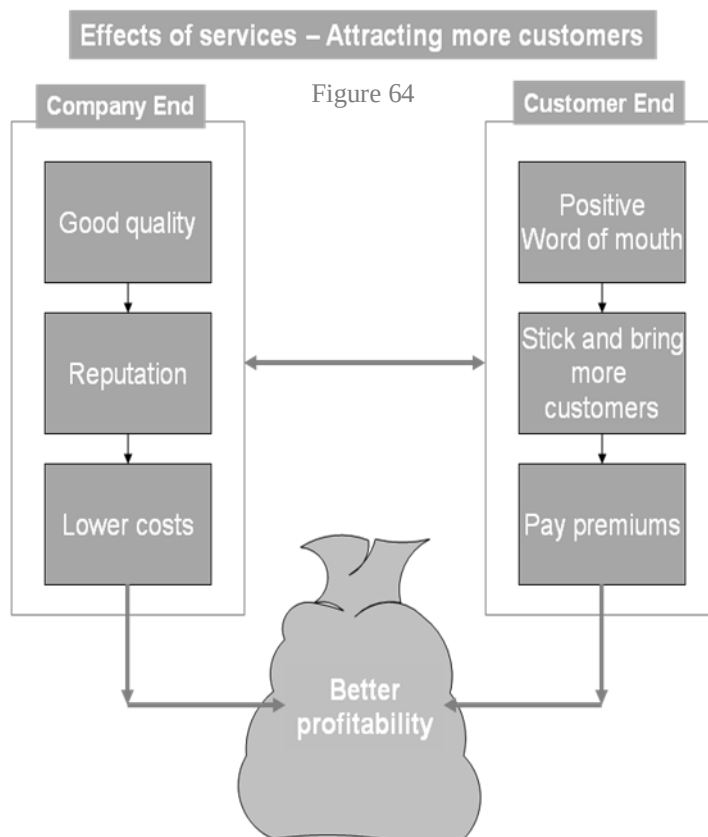
Good quality: Costs are reduced by offering quality. Quality service results in employees making less mistakes and errors, which improves the process by institutionalizing changes and hence reducing the cost of quality.

Word of mouth: More credible than any other form of communication, WOM is economical and come from satisfied customers. It saves promotional and advertising costs.

Volume of purchase: Satisfied customers spend more on the service, increase frequency of purchase and bring in more customers whose volume gets added to the existing one and multiply revenues and profits.

Loyalty: Loyal customers exhibit not just the tendency to stick with the company they get into exhibiting many behavioral intentions of strategic importance. For example, students of a university were found talking not just in favor of their alma mater to other students and their employers, but also got into acts of raising funds for the school they were so proud of.

Price premium: Loyal customers are inclined to pay more. Their inclination to pay more stems from the fact that they perceive getting value from the service product. This lets us revisit the concept of demand-based pricing whereby companies establish what customer values the most. Based on the benefits that offer value companies work out the monetary and non-monetary value and arrive at a price better than that of competition.



The drivers of service quality, retention, and profitability²

In order for sellers to achieve positive effects of services, they must understand what the key drivers of quality, customer retention, and profitability really are! Depending upon the service and the industry, different levels of quality dimensions are brought into effect thereby calling for different levels of investment. Some may require high investment in physical evidence, while others may call for more investment into human resource for better responsiveness and empathy. Sellers, therefore, must identify the intensity required in terms of functional and technical quality and then decide the level of investments.

If a company has delivered a complex service, it must be able to explain all the features, must be fully knowledgeable about all the characteristics of the service, and must have a good relationship whereby it can be approached by the customer at customer's convenience.

Performance measurements³

All the good effects of quality service and the key drivers indicate that performance of service should be measured by not just traditional financial perspective, but also taking into account three other following perspectives:

- Customer
- Operational
- Learning

According to the recorded business history, the financial perspective is pretty much established and standardized since 400 years, whereas the above is recently introduced and professed upon.

Experts say that financials are a representation of the past and do not reflect what will happen in future. Many companies with strong financials start showing deterioration of results, because they cannot keep track of the operational processes, efficiencies involved, quality, and satisfaction of customer. Experts go on to suggest that companies take a fresh look at financials from the standpoints of

- Customer retention, and
- Customer defections

Companies can work out projections of retention by getting into the concept of customers' lifetime value and the resultant stream of revenues. Not just retention, companies should also project how much is going to be contributed by referrals and the resultant costs and price premiums. Likewise, by having a record of past defections and companies' failure rate of quality delivery they can project future defections and then discount those.

Customer perceptual measures⁴

These measures reflect customers' beliefs of services and therefore indicate their future intentions. This takes us back to customer expectations, our ability to satisfy them, and then identifying their future intentions to stick or switch. Such measures let us know how they rate us on the merits of technical and functional quality thereby accentuating the importance of marketing research programs and our ability to find out how they perceive our service.

Of the research methods and approaches, SERVQUAL appears prominent. It can give us an assessment of where we fall on the scale of different measures. We also can get into CIT whereby we can trace the level of satisfaction and dissatisfaction and then associate those with the relevant themes of

- Recovery
- Adaptability/flexibility
- Spontaneity
- Coping

Operational measures⁵

These are the translation of perceptual measures as established through research. We can then make them standards as per different themes as they affect the five dimensions of quality.

Innovation and learning⁶

This involves a company's ability to learn from different measures and then making corrections to its strategies, improving service, innovating, and introducing new services. It is obvious *if a company meets customer expectations and also understands what constitutes customer value, it can come up with the right service, sustain it, keep the customers, bring in new customers, and charge a price premium.*

With this I conclude my teaching of services in the hope that it has added a new dimension to our understanding of services marketing and its management. By retaining a good understanding of the concepts, I am confident you will enter the practical field with an elevated sense of preparedness.

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