Services Marketing

BBA-6th Semester

UNIT - 1

Marketing of Services

Service is the action of doing something for someone or something. It is largely intangible (i.e. not material). A product is tangible (i.e. material) since you can touch it and own it. A service tends to be an experience that is consumed at the point where it is purchased, and cannot be owned since it quickly perishes. A person could go to a café one day and have excellent service, and then return the next day and have a poor experience.

Introduction

Key Economic Indicators *about India*

➢ **GDP:** $691 billion

➢ **Growth:** Estimated 7-8 percent or higher in 2005-06; 7 percent in 2004-05

➢ **Breakdown:** Services equal 50 percent of the GDP; industry and agriculture equal 50 percent

➢ **Ranking:** 10th largest economy in the world and one of its fastest growing; fourth largest in purchasing-power parity terms

➢ **Per capita income:** $640 in 2004-05, (almost double the figure of two decades ago). Of the 1.1 billion people, 39 percent live on less than $1 per day

➢ **Purchasing power:** In 2005, approximately 170-300 million people had growing purchasing power, thus creating a growing middle-class consumer population

➢ **Youth Power:** Over 58 percent of the Indian population is under the age of 20. That is over 564 million people, nearly twice the total population of the United States

India at a Glance

➢ **Population:** 1.1 billion (Urban population - 28.4 percent)

➢ **Retail Mkt. Size:** $286 billion (only 3.9 percent is organized retail). Retail trade is booming in the country due to increasing disposable incomes of middle and upper middle class

➢ **Growth of Malls:** 375 shopping malls by 2007 from 25 in 2003; Estimated space: 90 million sq.ft.

➢ **Growing Middle-class:** 300 million and estimated to be growing at 5 percent annually

➢ **Did you know that India:** is the world's second largest small car market

• Is one of only three countries that makes its own supercomputers

• Is one of six countries that launches its own satellites; one hundred of the Fortune 500 have R & D facilities in India
• Has the second largest group of software developers after the U.S.
• Lists 5,000 companies on the Bombay Stock Exchange; only the NYSE has more
• Is the world's largest producer of milk, and second largest producer of food, including fruits and vegetables

Services Marketing
Services marketing is marketing based on relationship and value. It may be used to market a service or a product. Marketing a service-base business is different from marketing a product-base business.
There are several major differences, including:
1. The buyer purchases are intangible
2. The service may be based on the reputation of a single person
3. It's more difficult to compare the quality of similar services
4. The buyer cannot return the service
5. Service Marketing mix adds 3 more p's, i.e. people, physical environment, process service and follow-through are keys to a successful venture.
When one markets a service business, one must keep in mind that reputation, value, delivery of "Managing the evidence" refers to the act of informing customers that the service encounter has been performed successfully. It is best done in subtle ways like providing examples or descriptions of good and poor service that can be used as a basis of comparison. The underlying rationale is that a customer might not appreciate the full worth of the service if they do not have a good benchmark for comparisons.
However, it is worth remembering that many of the concepts, as well as many of the specific techniques, will work equally well whether they are directed at products or services.
In particular, developing a marketing strategy is much the same for products and services, in that it involves selecting target markets and formulating a marketing mix.
Thus, Theodore Levitt suggested that "instead of talking of 'goods' and of 'services', it is better to talk of 'tangibles' and 'intangibles'". Levitt also went on to suggest that marketing a physical product is often more concerned with intangible aspects (frequently the `product service' elements of the total package) than with its physical properties. Charles Revson made a famous comment regarding the business of Revlon Inc.: `In the factory we make cosmetics. In the store we sell hope.' Arguably, service industry marketing merely approaches the problems from the opposite end of the same spectrum.
In economics and marketing, a **service** is the non-material equivalent of a good.

Service provision has been defined as an economic activity that does not result in ownership, and this is what differentiates it from providing physical goods. It is claimed to be a process that creates benefits by facilitating a change in customers, a change in their physical possessions, or a change in their intangible assets. By supplying some level of skill, ingenuity, and experience, providers of a service participate in an economy without the restrictions of carrying stock (inventory) or the need to concern themselves with bulky raw materials. On the other hand, their investment in expertise does require marketing and

upgrading in the face of competition which has equally few physical restrictions. Providers of services make up the Tertiary sector of industry.

Definition
A service is an intangible product involving a deed, performance, or an effort that cannot be physically possessed. Dominant component is intangible.
Includes rental of goods, alteration and repair of goods owned by customers, and personal services. Major differences between goods and services are:
➢ Intangibility
➢ Inventory—over/under booking restaurant capacity
➢ Inseparability—of production and consumption
➢ Inconsistency/Consistency

The use of Marketing by Service Firms
Has been limited to:
➢ Many service firms stress technical expertise, therefore have lagged in their use of marketing.
➢ Many service firms are small, marketing expertise cannot be hired.
➢ Strict licensing/legal restrictions limit competition and need for marketing.
➢ Service associations have prohibited marketing.
➢ High esteem of professionals, do not need marketing. A number of professionals have a dislike for marketing and a lack of understanding.
Use of marketing is likely to increase rapidly in the near future....due to competition etc.

Characteristics of Services
Intangibility
They cannot be seen, handled, smelled, etc. There is no need for storage. Because services are difficult to conceptualize, marketing them requires creative visualization to effectively evoke a concrete image in the customer's mind. From the customer's point of view, this attribute makes it difficult to evaluate or compare services prior to experiencing the service Prior to purchase, much service promotion must rely on performance attributes which can only be measured after a purchase experience (tangible goods have search qualities). Also professional services have credence qualities.

Need to use promotion to help customers perceive a service as highly tangibility.
➢ Develop tangible representation of the service, i.e. credit card serves as the physical product with own image and benefits. Make advertising easier. Airlines use an aircraft. Travellers umbrella.
➢ Develop a brand image—seek out U Haul as opposed to a truck service
➢ Word of mouth very important due to intangibility.
➢ Offer discounts and free samples/service to customers who encourage friends to come.
➢ Offer tangible benefits in sales promotions, must be consistent with customers needs/ wants

➢ Establish a clear product position, i.e. 24 hour outside service for repair of industrial equipment.

Intangibility also presents pricing problems. How should an auto mechanic charge for his/her services?

Visibility of the service may be a problem. Although a problem may have been fixed, you don't understand why?. Need to explain the time needed for repair, and functions that were performed if you want the repair to be more tangible.

Psychological role of price is magnified since customers must rely on price as the sole indicator of service quality when other quality indicators are absent.

Perishability

Unsold service time is "lost", that is, it cannot be regained. It is a lost economic opportunity. For example a doctor that is booked for only two hours a day cannot later work those hours— she has lost her economic opportunity.

Other service examples are airplane seats (once the plane departs, those empty seats cannot be sold), and theatre seats (sales end at a certain point).

Inventory

Services cannot be stockpiled. Need to avoid excess unsatisfied demand and excess capacity leading to unproductive use of resources.

To resolve inventory issues:

➢ Market services to segments with different demand patterns

➢ Market new services having counter cyclical demand patterns from existing services

➢ Market new services to compliment existing services

➢ Market service extras at non-peak times

➢ Market new services not affected by existing capacity constraints

➢ Train personnel to do multiple tasks

➢ Hire PT employees during peak hours

➢ Educate consumers to use service at non peak hours

➢ Offer incentive, ie. reduce price at non peak times, this will not work in all instances, ie, travel at non peak hours.

Lack of Transportability

Services tend to be consumed at the point of "production" (although this doesn't apply to outsourced business services).

Lack of Homogeneity

Services are typically modified for each client or each new situation (customised).

Mass production of services is very difficult. This can be seen as a problem of inconsistent quality. Both inputs and outputs to the processes involved providing services are highly variable, as are the relationships between these processes, making it difficult to maintain consistent quality.

Labour Intensity

Services usually involve considerable human activity, rather than precisely determined process. Human resource management is important. The human factor is often the key success factor in service industries. It is difficult to achieve economies of scale or gain dominant market share.

Demand Fluctuations
It can be difficult to forecast demand (which is also true of many goods). Demand can vary by season, time of day, business cycle, etc.

Buyer Involvement
Most service provision requires a high degree of interaction between client and service provider.
Inconsistency
Lawn care service cannot mow a lawn precisely the same way each time, but need to make the service as efficient and consistent as possible.
Remedy—use technology to help make the service provider more consistent...or replace workers with technology:)

Inseparability
Leads to direct (short) channels of distribution. In some cases it is possible to use intermediaries, travel agents, ATMs etc.
Close provider-customer relationship—employee interpersonal skills very important. "relationship managers", quality of relationships determines the probability of continued interchange with those parties in the future.
Customers may become loyal to a particular employee as opposed to the company, prevalent in the advertising industry. Therefore must make sure that multiple employees are capable of performing the same tasks.

Classification of Services
Service ontology for service bundling
Economic service classifications
Function *Combine* services into groups *Divide* whole spectrum of existing services into smaller
Groups
Grouping rules *Company- and domain-specific* business rules
Global rules (hold for the whole service industry)

Nature of grouping rules
Any type of dependency between services (e.g. difference, similarity)
Classification criteria that *differentiate* one service from another

Abstraction level of reasoning
Instances of services (e.g., ABNAmro private unemployment insurance)
Abstract classes of services (e.g., insurance services)

The Extent of Services in the Economy

US is the worlds first service economy. More than 75% of the workforce in the private sector is employed in the service industry. Accounts for more than $3bn in output and contribute 60% of GNP. 60% of services are consumed by the final consumer. The increase in the service sector is a result of LT growth in the US economy deriving demand for additional services
➢ Travel
➢ Financial services
➢ Entertainment
➢ Personal care etc.
Dual income families need for convenience. Increase in health awareness.

Illustration of Service Marketing
Marriot Hotels: Offer different services for different segments of their target market. Great attention paid to product positioning. Rely on research, publicity, TV advertising, use of well conceived slogans and greater personal attention to consumers. Quick resolution to customer problems—overbooking, long customer lines, unresponsiveness, discourteous staff. Hotels now offer alternative accommodations for over booking, computerized check out systems, express check outs, serving free drinks, provide baggage handling etc.
Service Delivery: The delivery of a service typically involves five factors:
1. The service providers (e.g. the people)
2. Equipment used to provide the service (e.g. vehicles, cash registers)
3. The physical facilities (e.g. buildings, parking, waiting rooms)
4. The client
5. Other customers at the service delivery location
The **service encounter** is defined as all activities involved in the service delivery process. Some service managers use the term "moment of truth" to indicate that defining point in a specific service encounter where interactions are most intense. Many business theorists view service provision as a performance or act (sometimes humorously referred to as *dramalurgy*, perhaps in reference to dramaturgy). The location of the service delivery is referred to as the stage and the objects that facilitate the service process are called props. A script is a sequence of behaviours followed by all those involved, including the client(s). Some service dramas are tightly scripted, others are more ad lib. Role congruence occurs when each actor follows a script that harmonizes with the roles played by the other actors.

Service-Goods Continuum
In some service industries, especially health care, dispute resolution, and social services, a popular concept is the idea of the **caseload**, which refers to the total number of patients, clients, litigants, or claimants that a given employee is presently responsible for.
On a daily basis, in all those fields, employees must balance the needs of any individual case against the needs of all other current cases as well as their own personal needs.
Under English law, if a service provider is induced to deliver services to a dishonest client by a deception, this is an offence under the Theft Act 1978.

The Service-Goods Continuum

The dichotomy between physical goods and intangible services should not be given too much credence. These are not discrete categories. Most business theorists see a continuum with pure service on one terminal point and pure commodity good on the other terminal point. Most products fall between these two extremes. For example, a restaurant provides a physical good (the food), but also provides services in the form of ambience, the setting and clearing of the table, etc. And although some utilities actually deliver physical goods — like water utilities which actually deliver water — utilities are usually treated as services.
In a narrower sense, **service** refers to quality of customer service: the measured appropriateness of assistance and support provided to a customer. This particular usage occurs frequently in retailing.

List of economic services
The following is an incomplete list of **service industries**, grouped into rough sectors. Parenthetical notations indicate how specific occupations and organizations can be regarded as service industries to the extent they provide an intangible service, as opposed to a tangible good.
➢ Business functions (that apply to all organizations in general)
• Consulting
• Customer service
• Human resources administrators (providing services like ensuring that employees are paid accurately)
➢ Child care
➢ Cleaning, repair and maintenance services
• Janitors (who provide cleaning services)
• Gardeners
• Mechanics
➢ Construction
• Carpentry
• Electricians (offering the service of making wiring work properly)
• Plumbing
➢ Death care
• Coroners (who provide the service of identifying corpses and determining time and cause of death)
• Funeral homes (who prepare corpses for public display, cremation or burial)
➢ Dispute resolution and prevention services
• Arbitration
• Courts of law (who perform the service of dispute resolution backed by the power of the state)
• Diplomacy
• Incarceration (provides the service of keeping criminals out of society)
• Law enforcement (provides the service of identifying and apprehending criminals)
• Lawyers (who perform the services of advocacy and decision-making in many dispute resolution and prevention processes)
• Mediation
• Military (performs the service of protecting states in disputes with other states)

- Negotiation (not really a service unless someone is negotiating on behalf of another)
- ➤ Education (institutions offering the services of teaching and access to information)
- Library
- Museum
- School
- ➤ Entertainment (when provided live or within a highly specialized facility)
- Gambling
- Movie theatres (providing the service of showing a movie on a big screen)
- Performing arts productions
- Sexual services (where legal)
- Sports
- Television
- ➤ Fabric care
- Dry cleaning
- Laundromat (offering the service of automated fabric cleaning)
- ➤ Financial services
- Accounting
- Banks and building societies (offering lending services and safekeeping of money and valuables)
- Real estate
- Stock brokerages
- Tax return preparation
- ➤ Foodservice industry
- ➤ Hairdressing
- ➤ Health care (all health care professions provide services)
- ➤ Information services
- Data processing
- Database services
- Language interpretation
- Language translation
- ➤ Risk management
- Insurance
- Security
- ➤ Social services
- Social work
- ➤ Transport
- Service Car Rental
- ➤ Utilities
- Electric power
- Natural gas
- Telecommunications
- Waste management
- Water industry

The Services Marketing Mix
Cowell states that what is significant about services are the relative dominance of intangible attributes in the make-up of the "service product". Services are a special kind of product. They may require special understanding and special marketing efforts.
The provision of the continuing education contains the element of the tangible and intangible. It usually provides a learning materials (physical good) and also numbers of the service activities (teaching processes, contact with customers, organization of the courses, etc.). The distinction between physical and service offering can, therefore, be best understood as a matter of degree rather that in absolute terms. The continuing education is service –based since the value of this product is dependent on the design and delivery of the CE courses rather than the cost of the physical product (teaching materials, CDs, etc.).
The **services marketing mix** is an extension of the 4-Ps framework. The essential elements of *product, promotion, price* and *place* remain but three additional variables – ***people, physical evidence*** and ***process*** – are included to 7–Ps mix. The need for the extension is due to the high degree of direct contact between the CE providers and the customers, the highly visible nature of the service process, and the simultaneity of the production and consumption. While it is possible to discuss people, physical evidence and process within the original-Ps framework (for example people can be considered part of the product offering) the extension allows a more thorough analysis of the marketing ingredients necessary for successful services marketing.

People
Because of the simultaneity of production and consumption in services the CE staff occupy the key position in influencing customer's perceptions of product quality. In fact the service quality is inseparable from the quality of service provider. An important marketing task is to set standards to improve quality of services provided by employees and monitor their performance. Without training and control employees tend to be variable in their performance leading to variable service quality. Training is crucial so that employees understand the appropriate forms of behaviour and trainees adopt the best practices of the andragogy.

Physical Evidence
*T*his is the environment in which the service is delivered and any tangible goods that facilitate the performance and communication of the service. Customers look for clues to the likely quality of a service also by inspecting the tangible evidence. For example, prospective customers may look to the design of learning materials, the appearance of facilities, staff, etc.

Process
This means procedures, mechanism and flow of activities by which a service is acquired. Process decisions radically affect how a service is delivered to customers. The service in CE includes several processes e.g. first contact with customers, administrative procedure regarding course delivery, preparation, delivery and evaluation of the courses.

The following guideline can be useful for successful CE management:

➢ Ensure that marketing happens at all levels from the marketing department to where the service is provided

➢ Consider introducing flexibility in providing the service; when feasible customize the service to the needs of customers

➢ Recruit high quality staff treat them well and communicate clearly to them: their attitudes and behavior are the key to service quality and differentiations

➢ Attempt to market to existing customers to increase their use of the service, or to take up new service products

➢ Sep up a quick response facility to customer problems and complaints

➢ Employ new technology to provide better services at lower costs

➢ Use branding to clearly differentiate service offering from the competition in the minds of target customers

The Differential Advantage and Branding

Only few products are unique. Often the challenge lays in finding a way to differentiate your products from a rival's near-identical offerings. The basic question says: "How can I get an advantage over the competition?"

When your products are better than those of your competitors, and when customers recognize this superiority, you have a real advantage. Few organizations are in this position.

Most find that there is a little or nothing to distinguish their own products from competitor's. To gain competitive advantage, uncover not just differences but also attributes that customer's value. Make sure the differences are meaningful to customers, so that your product is preferable to the others available. Often it is the little things that count. Customers may choose your product over a competitor's identical product because they prefer your lecturers or because you give them coffee while delivery of the courses.

Pay attention to details that could make a difference. A genuine customer-centric approach will differentiate you from competitors. Show your commitment to customers and ensure that staffs are emphatic. Review company systems and processes to make them more customers focused.

Team Assignment – Differentiate Your Product

Answering the following questions, try to identify the differential advantage of your CE centre

1. Why should customers buy from us rather than from our competitors?
2. What makes us different from our competitors?
3. How are we better than our rivals?
4. What strengths do we have that we can effectively capitalize on?

Strong, well-known products provide companies with a real competitive advantage.

Use the power of branding to imbue your products with personality and meaning, ensuring they achieve a prominent position in the marketplace.

The right name helps to sell products and service. It bestows individuality and personality, enabling customers to identify with your offerings and to get to know them. It makes products and services tangible and real. Choose name that enhance your company image and that are appropriate for the products and its positioning in the marketplace.

Establish trust in your brand and customers will remain loyal.
Branding means developing unique attributes so that your products are instantly recognisable, memorable, and evoke positive association. Some brands have a solid and reliable personality, others are youthful and fun.
Choose your company and product name, corporate colours, logo, design and promotional activity to help convey a personality and build a brand. Customers should be able to look at one of your products and assimilate all that you stand for in a second by recalling the brand values. But remember: *A strong brand is not a substitute for quality but an enhancement to it.* The service attributes are e.g. friendless, creativity, courtesy, helpfulness and knowledgeability.
The creation of a corporate identity is a vital element of branding. Present an integrated, strong, instantly recognizable, individual image that is regarded in a positive way by your customers, and seize every opportunity to strengthen your corporate identity.
It is important to maintain corporate identity consistently by issuing written guidelines for staff.

Characteristics that are More Prevalent in Services
➢ **Intangibility**: Services are intangible; as a consequence, it is often the case that customers do not note them, or perceive them differently than the company desires. Hence, it is necessary to **Make Them More "Visible"**. This can be done by shaping perceptions and expectations, which require a good knowledge of Psychology.
➢ A good example of shaping perceptions and expectations is the management of waiting time. (Other consequences of Intangibility are:)
➢ The importance of all the **Physical Aspects** associated with the service, like the appearance of service contact personnel (drivers of FedEx) as well as brochures, facilities etc…
➢ The **Lack of Patents**, which requires industry leaders to be creative on a steady basis, and to have a very flexible IT infrastructure and a Culture suitable to continuous change.
➢ The need to **Materialize** the Service, recall the examples of the maintenance company, the car wash … The two 747 aircraft that FedEx flies empty every night and the snow equipment in Memphis are two missed opportunities. Think about what your company does for its customer that they are not aware of and they may pay for it.

➢ **Perishability:** The fact that services are perishable eliminates the possibility of using inventory management to **match supply and demand**. There are several strategies that can be used to **match supply and demand** in Services (**broadly recognized as the most difficult problem faced by operations managers in Services**). We will have several classes on this topic.

➢ **Heterogeneity**: Services are very often delivered by humans. An important attribute of customer satisfaction is **Consistency,** which humans are not known for. Companies tend to minimize this problem with training. However they often forget that recruiting is more critical because it may be very costly to train individuals who do not have a natural fit with the job (recall the example of the waitress and the salad bar).

➢ **Simultaneity**: Services are **produced and consumed simultaneously**. As a consequence customer purchase the service and part of the delivery system (in a restaurant, customers purchase an experience and not just food). Because of this property **it is difficult to separate marketing, customer service, and operations in a service organization**.
The simultaneity property complicates the management of quality in service operations. The reason is the lack of consistency and the fact that supervisor cannot be present in all encounters.
➢ **Keep in mind that in services, what the company does is not necessarily what the customer perceives**. Sometimes this difference between customer perception and what the company does, occurs by design (examples are Benihana and Disney).
➢ Whenever possible keep the design of the system simple. Often, simplicity is a sign of understanding of the essence of the business while complexity is the opposite.
The pursuit of a simple design leads to understanding and elegance. Of course, sometimes there is no alternative to designing a complex system, however, to attempt to simplify it is a beneficial exercise. Always ask why do I need this feature? Can I get rid of it? ...
➢ **Interaction** among customers and suppliers, in a Supply Chain, creates the opportunity of **adding value to the final product through services**. The synchronization of the Supply Chain, which is the center of a publicity campaign by UPS, stresses exactly this value. This notion of synchronization just scratches the surface of the potential of services in a Supply Chain

Simple Blue prints to marketing of services
➢ **How to get customers. What ever business you are in, you'll discover examples of how to get more prospects and how to convert them into paying customers**
➢ How to keep customers to sell more services and increase life time value
➢ **How to get your customers freely selling your services for you!**
➢ Discover how to get into the readership of what your customers are reading on a daily basis
➢ **Find the most effective ways to spread the word of your business to customers about new products and services you are offering**
➢ How to find more prospects for your business and where to go to get them
➢ **How to position your business as the industry spokesperson and have editors phoning YOU for your stories**
➢ Find out how writing your sales pitches in a *slightly different* way is going to boost your response by up to 300%!
➢ **How focusing on just one of your customer groups is going to both save you valuable time and maximise your sales**
➢ How one little piece of work is going to remind wavering prospects time and time again
➢ **Will you give away your product for free? You ought to - but who to? I'll show you how and why**
➢ How offering up-sells is going to get 40% of your customers to give you more money

UNIT - III
Marketing Mix in Services Marketing
Learning Objectives
After going through this lesson, you should be able to:
➢ Understand the role of marketing mix in the marketing program of a service firm
➢ Know the sub-elements that comprise each of the marketing mix elements
➢ Learn how the 7 Ps combine to create effective marketing programs
In this lesson, the following will be discussed:
➢ Product management decisions
➢ Channel management
➢ Marketing communications
➢ Pricing basis, objectives and approaches
➢ People's role in service firms

➢ Service scapes and their roles
➢ Service blueprinting

Introduction
Marketing strategy involves segmenting the market, targeting one or more segments and positioning the product/service towards the targeted segment(s). After marketers select a target market, they direct their activities towards profitably satisfying that segment. Although they must manipulate many variables to reach this goal, marketing decision making can be divided into four areas: product, price, place (distribution) and promotion (marketing communication). The total package forms the marketing mix – the blending of the four elements to fit the needs and preferences of a specific target market. These are the four variables that a marketer can use in different combinations to create value for customers. Several of the sub-elements in each of the four Ps that constitute the marketing mix are listed in Table. However the strategies of the four Ps require some modifications when applied to services.
Modification to the traditional marketing mix is necessitated by the characteristics (namely intangibility, perishability, heterogeneity and simultaneous production and consumption) of services. For example, since services are produced and consumed simultaneously, service delivery people (front desk personnel, guides, phone personnel and so on) are involved in real-time promotion of the service even if their jobs are typically defined in terms of the operational function they perform.
As services are usually produced and consumed simultaneously, customers are often present in the firm's 'factory', interact directly with the firm's personnel and are actually part of the service production process.. Such considerations have led services marketers to adopt the concept of an expanded marketing mix for services in the form of three additional
Ps (namely people, physical evidence and process) which are also shown in Table. The expanded marketing mix was popularized by Booms and Bitner.

Marketing mix: elements and sub-elements
Elements of the
Marketing Mix
Sub-elements
Product ➢➢ Product design
➢➢ Product positioning
➢➢ Product name and branding
➢➢ Packaging and labeling
➢➢ Breadth and depth of product line
➢➢ Level and type of customer service
➢➢ Product warranty
➢➢ New product development process
➢➢ Product life cycle strategies
Price ➢➢ Manufacturer, wholesaler and retailer selling prices
➢➢ Terms and conditions

➢➢   Bidding tactics

➢➢   Discount policies

➢➢   New product pricing (Skim Vs. Penetrating pricing)

Promotion (marketing communications)

➢➢   Advertising

➢➢   Sales force policies

➢➢   Direct marketing (mail, catalog)

➢➢   Public relations

➢➢   Price promotions – for the consumers and the channel

➢➢   Trade shows and special events

Place (distribution channels)

➢➢   Direct Vs. Indirect channels

➢➢   Channel length

➢➢   Channel breadth (exclusive, selective or intensive)

➢➢   Franchising policies

➢➢   Policies to ensure channel coordination and control

People ➢➢   Employees

· Recruiting

· Training

· Motivation

· Rewards

· Teamwork

➢ Customers

· Education

· Training

Physical evidence ➢➢   Facility design

➢➢   Service ambience

➢➢   Equipment

➢➢   Signage

➢➢   Employee dress

➢➢   Point-of-sale displays

➢➢   Other tangibles (e.g. business cards)

Process ➢➢   Flow of activities

➢➢   Service script (number of steps)

➢➢   Customer involvement

Marketing Programs

A marketing program is made up of the various elements of the marketing mix and the relationships among them. The concept of the marketing mix emphasizes the fit of the

various pieces and the quality and size of their interactions. There are three degrees of interaction – consistency, integration and leverage. Consistency is the lack of a poor fit between two or more elements of the marketing mix.

For example, to sell a high quality service through a low quality servicescape (ambience or the physical surrounding) would seem inconsistent. While consistency is the lack of a poor fit, integration is the presence of a positive, harmonious interaction among the elements of the mix. For example, heavy advertising can sometimes be harmonious with a high price, because the added margin from the high price pays for the advertising and the high advertising creates the brand differentiation that justifies the high price. Leverage is the situation in which each individual element of the mix is used to the best advantage in support of the total mix.

Once the elements of the marketing mix have met the internal tests of consistency, integration and leverage, the next step is to check that the proposed program fits the needs of the target customers, the core competencies of the company and the likely responses of key competitors.

The concept of program/customer fit encompasses development of a marketing program that fits the needs of the target-market segments. For that, the market must first be carefully and explicitly delineated. If the target has not been defined, it cannot be reached! The program must not only fit the market, but also fit the company. A marketing program must match the core competencies of the company that is implementing it. For example, an organization with extensive mass advertising experience and expertise is more likely to be able to carry out a program that leans heavily on advertising than an organization less strong in that particular area. An effective marketing program must not only fit the company's own core competencies, it must also take account of competitors' programs.

Competitive/ program fit can be defined as the characteristic of a marketing program that, while building on a company's strengths and shielding its weaknesses, protects it from competitors by capitalizing on their weaknesses, in the process creating a unique market personality and position.

Like most concepts, the marketing mix is an abstraction and real marketing programs do not always fit perfectly the product, price, place, promotion, people, physical evidence and process paradigm. In fact, several parts of the mix fall at the interface of two elements. For example, brand, which is often views as an aspect of product, is clearly also part of marketing communications and can serve to help coordinate product/service policy and communication.

Product Management Decisions

The marketing literature defines a product as 'anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, places, organizations and ideas. Such a definition refers to the planned component of the product that a firm offers. But in many service firms, the product also includes an unplanned component. For example, it may be a broken chair in a restaurant or a delayed departure of a flight or simply, a long wait on the customer support helpline.

Product Levels

The challenge for the service managers is to minimize (if not eliminate) these unplanned components and make sure that the customers get what they expected. To facilitate this, a multi-level view of the 'product' helps. It may view the product as comprising of the core product, the facilitating product, the supporting product and the augmented product.

➢ Core product – This is the most basic level of the product and it answer the question – What is the buyer really buying?

➢ Facilitating product – It is the service/good that must be present for the customer to use the core product.

➢ Supporting product – It is the extra product offered to add value to the core product and help to differentiate it from the competition.

➢ Augmented product – It includes accessibility, atmosphere, customer interaction with the service organization, customer participation and customers' interaction with each other. All these elements combine with the core, facilitating and supporting products to provide the augmented product.

For a mobile phone service provider, the core product is telephony/communication service. The facilitating product refers to its infrastructure, mobile handsets, retail outlets, re-charge options and so on. The supporting product refers to the value-added services like zero-balance call or one-touch services. The augmented product refers to its customer support or helpline, retail reach, atmospherics and so on.

From a managerial standpoint, the core product provides a focus for the business; it is the reason for being. Facilitating products are those that are essential for providing the core product to the target market. Supporting products can help position a product.

According to Gronroos, the core, facilitating and supporting products determine what the customer receives but not how they receive it. The augmented service offering combines what is offered with how it is delivered.

Branding

A brand is a name, term, sign, symbol, design or a combination of these elements that is intended to identify the goods or services of a seller and differentiate them from those of competitors. Scott Davis, author of *Brand asset management*, states:

"Brands are among a company's most valuable assets and smart companies today realize that capitalizing on their brands is important … These companies know that brands are more than just products and services. They know that the brands are also what the company does and more importantly, what the company is … A brand is a critical component of what a company stands for. It implies trust, consistency and a defined set of expectations. The strongest brands in the world own a place in the customer's mind and when they are mentioned almost everyone thinks of the same things."

Figure illustrates a classification of branding decisions right from the decision to brand, who is the brand sponsor, the decision concerning the brand name, the brand strategy decision (to leverage on the brand name) and the brand reposition decision (to give a new lease of life to an ageing product in its life cycle).

Classification of Branding Decisions
Product Life Cycle (PLC) Concept

Products and services, like people, pass through stages as they age. Humans progress from infancy to childhood to adulthood to retirement to death, and successful products progress through four basic stages, namely,

➢ Introduction – a period of slow sales growth as the product is being introduced into the market. Profits are non-existent at this stage because of the heavy expenses of product introduction. Also, the introduction takes time, and sales growth is apt to be slow. Some product may linger in the introduction stage for many years before they enter a stage of rapid growth. For instance, the small and independent beauty parlours have been around quite sometime. But with so many rapid changes in the social climate, even big names like HLL and Marico industries have entered this market in a big way. In the introductory stage, there are only a few competitors who produce basic versions of the product, because the market is not ready for product refinements. The firms focus on selling to buyers who are ready to buy, usually the higher-income groups. Prices tend to be on the high side because of low output, production problems and high promotion and other expenses.

➢ Growth – a period of rapid market acceptance and increasing profits. Competitors will enter the market, attracted by the opportunity for profit. It happened in the Indian domestic aviation industry with Air Deccan entering the market as a lowcost carrier (LCC). Soon there was a rush of LCCs like SpiceJet, GoAir, IndiGo and others. Prices remain where they are or fall only slightly. Firms keep their promotion spending at the same or at a slightly higher level to meet competition and continue educating the market. The firm users several strategies to sustain rapid market growth as long as possible:

· Improve product quality and add new product features and models

· Enter new market segments

· Enter new distribution channels

· Shift some advertising from building product awareness to building product conviction and purchase

· Lower prices at the right time to attract more buyers

➢ Maturity – a period of slow down in sales growth because the product has achieved acceptance by most of its potential buyers. This slow down causes supply to exceed demand. The resulting overcapacity in the market leads to greater competition. Profits level off or decline because of increased marketing outlays to defend the product against competition. The only to increase sales significantly is to steal customers from the competition. Thus, price wars and heavy advertising are often the means used to do this, both of which add to the marketing cost. Weaker competitors start dropping out. The industry eventually contains only well-established competitors in the main market segments with smaller competitors pursuing the niche markets. Instead of just defending the product, a firm should consider modifying target markets and the marketing mix elements.

➢ Decline – a period when sales decline quickly and profits drop. It may be because of reasons like technological advances, shifts in consumer tastes and increased competition. As sales and profits decline, some firms may withdraw from the market. Those remaining may reduce the number of their product offerings. They may drop smaller market segments and marginal trade channels. They may cut the promotion budget and reduce

their prices further. Carrying a weak product can be very costly to the firm, and not just in terms of reduced profit. Keep weak products delays the search for replacements, creates a lopsided product mix, hurts current profits and weakens the company's foothold on the future. For these reasons, firms must pay attention to their ageing products. Regularly reviewing sales, market shares, costs and profit trends for each of its products will help to identify products in the decline stage.

The progression from introduction stage to decline stage, known as the product life cycle, is depicted in Figure. Notice that the product life cycle concept applies to products/categories within an industry, not to individual brands. Also some products may move rapidly through the product life cycle while others pass through those stages over long time periods. In a global context, a product may be seen in different stages of its life cycle in different markets. As an illustration, in the current Indian market, digital handycams may be said to be in the introduction stage, mobile phones in the growth stage, televisions in the maturity stage and radio in the decline stage.

Product Life Cycle
Time
Product
Development
Introduction
Profits
Sales
Growth Maturity Decline
Losses/
Investments (Rs)
Sales and
Profits (Rs)

Table indicates the changes in the marketing strategy and marketing mix elements across the PLC stages. It is because the product faces unique market and competitive forces at each stage. At the introductory stage, a firm's marketing efforts should emphasize the goal of stimulating demand. The focus then shifts to cultivating selective demand in the growth period. Extensive market segmentation helps to maintain momentum in the maturity period.

During the decline stage, the emphasis returns to increasing primary demand. PLC provides useful guidance for marketing strategy decisions. Marketers can anticipate that sales and profits will assume a predictable pattern throughout the life cycle stages, so they can shift promotional emphasis from product information in the early stages to brand promotion in the latter ones. This kind of insight helps marketers to focus on maximizing sales and profits at each stage through appropriate promotional efforts.

Pricing Basis, Objectives and Approaches
Price is the only marketing mix element that produces revenue. All others represent cost. A pricing mistake can lead to business failure, even when all other elements of the business are sound. A price is an expression of value. The value rests in the usefulness and quality of the product itself, in the image that is conveyed through advertising and promotion, in the availability of the product through wholesale and retail distribution systems, and in the service that goes with it. A price is the seller's estimate of what all of this is worth to

potential buyers, recognizing the other options buyers will have for filling the need the product is intended to satisfy. To the extent that the product or service finds markets and is profitable at given price levels, it provides a viable economic base for building and maintaining a business.

In the competitive marketplace, pricing is a game. The struggle for market share focuses critically on price. Pricing strategies of competing firms, therefore, are highly interdependent. The price one competitor sets is a function not only of what the market will pay but also of what other firms charge. Prices set by individual firms respond to those of competitors; they also are intended often to influence competitors' pricing behaviour. All of marketing comes to focus in the pricing decision. A way to think about making a pricing decision is that price should be set somewhere between what the product costs to make and sell and its value to the customer. If price exceeds the perceived value of the product to potential purchasers, it has no market. If the price is below what the product costs to produce, the business cannot survive for very long. Where a price should be set between cost and customer value is a strategic decision.

This decision is more difficult in the case of services than products. It is because of the key differences between customer evaluation of pricing for services and goods.

For instance, customers often have inaccurate or limited reference prices for services. Monroe (1989) describes reference price as a price point in memory for a good or a service, and can consist of the price last paid, the price most frequently paid, or the average of all prices customers have paid for similar offerings. But many consumers are quite uncertain about their knowledge of the prices of services and the reference prices they hold in memory for services are not as accurate as what they hold in memory for products. This difference can be explained by the following factors:

➢ Service heterogeneity limits knowledge. The intangible nature of the services gives the service firms great flexibility in the configurations of services they offer. It leads to complex and complicated pricing structures. For example, consider a health insurance plan.

➢ Service providers are unwilling to estimate prices. The fundamental reason in many cases is that they do not know themselves what the services will involve until the process of service delivery. So a prior estimation is very difficult. For example, consider medical diagnosis and treatment.

➢ Individual customer needs vary. As a result, uniform pricing may not be feasible. For example, consider the legal services.

➢ Price information is overwhelming in services. In most cases, there are not list prices because of the reasons mentioned above. As a result, price comparison becomes difficult.

➢ Prices are not visible and they may be hidden or implicit. For example, consider the financial services. In few cases, many customers do not see the price at all until after they receive certain services.

Another unique characteristic of services is the role of non-monetary costs (like time costs, search costs and psychological costs) in the evaluation of whether to buy a service. Most services require direct participation of the consumer and thus consume real time. Time becomes a sacrifice made to receive service in multiple ways. Also, waiting time for a service is usually longer and less predictable than waiting time to buy goods. Search costs (i.e. the effort invested to identify and select among desired services) are also higher for services than for physical goods. The most difficult non-monetary costs are the

psychological costs incurred in receiving some services. Fear of not understanding (say, in the case of an insurance claim), fear of rejection (say, in the case of a bank loan) and fear of uncertainty (say, the fear of being charged more than other consumers) constitute psychological costs that customers experience as sacrifices when purchasing and using services.

When quality is hard to detect or when quality or price varies a great deal within a class of services, consumers may believe that price is the best indicator of quality. Unlike goods (products) that are dominated by search properties, services are dominated by experience and credence properties. Therefore price is not used to judge quality in goods as often as it is in services. Since customers depend on price as a cue to quality and because price sets expectations of quality, service prices must be determined carefully.

There are a number of factors which influence the pricing decisions of marketers. While some of these are external or environmental factors (such as competition, demand conditions and so on), others are internal factors (like marketing objectives, cost conditions and so on). Figure represents these factors.

Factors Affecting a Firm's Pricing Decision
Internal factors:
Marketing objectives
Marketing mix strategy

· Costs

· Pricing organization

Pricing decisions
External factors:

· Nature of the market and demand

· Competition

· Other environmental factors (e.g. economy, resellers and the Govt.)

General Service Pricing Approaches
The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Product costs set a floor for the price and consumer perceptions of its value set the ceiling. The firm must consider competitors' prices and other external and internal factors to find the best price between these two extremes. Firms set prices by selecting a general pricing approach that includes one or more of these sets of factors. The following approaches are used:

Cost-Based Approach
The simplest pricing method is cost-plus or markup pricing - adding a standard markup to the cost of the product. Markups vary greatly among different goods. Cost as a percentage of selling price is a commonly used pricing technique is the restaurant industry.

For example, a soft drink may cost Rs.10 is sold for Rs.20 in a upscale restaurant at a 100 percent markup on cost. Markups are generally higher on seasonal items (to cover the risk of not selling) and on specialty items, slower moving items, items with inelastic demand. It must be noted that any pricing method that ignores current demand and competition is not

likely to lead to the best price. Hence markup pricing only works if that price actually brings in the expected level of sales.

Advantages
(1) It covers all the costs
(2) It is designed to provide the target rate of margin
(3) It is generally a rational and widely accepted method
(4) It is an easy to comprehend and simple method
Disadvantages
(1) The cost calculations are based on a predetermined level of activity. If the actual level of activity varies from this estimated level, the costs may vary, rendering this method unrealistic.
(2) If the costs of the firm are higher than its competitors, this method would render the firm passive in relation to price.
(3) Another drawback is that sometimes the opportunity to charge a high price is foregone.
(4) It ignores the price elasticity of demand.
(5) The cost-based pricing would not be helpful for some of the objectives or tasks like market penetration, fighting competition and so on.
(6) It imparts an in-built inflexibility to pricing decisions.

Value-Based Approach
This approach uses the buyers' perceptions of value, not the seller's cost, as the key to pricing. The non-price variables in the marketing mix are used to build perceived value in the buyers' minds and set price to match the perceived value. Any firm using perceived value pricing must learn the value in the buyers' minds for different competitive offers. Using a technique called trade-off analysis (to identify those service features that add more value than they cost), the customer's willingness to pay for a service can be determined. If the seller charges more than the buyers' perceived value, its sales will suffer. Many firms overprice their products, resulting in poor sales. Other firms underprice. Underpriced products sell well, but they produce less revenue than they would if the firm raised its price to the perceived-value level.
When consumers discuss value, they may use the term in different ways. What constitutes value may be highly personal and hence vary from one customer to another. Zeithaml and Bitner (1996) categorize value as follows and describe the pricing approaches that are suited to these value definitions:
1. Value is low price – When monetary price is the most important determinant of value to a customer, the firm focuses mainly on price. The appropriate pricing approaches are:
a. Discounting – To communicate to price-sensitive buyers that they are receiving value, service firms offer discounts or price cuts.
b. Odd pricing – To make buyers perceive that they are getting a lower price, the services are priced just below the exact/round amount (i.e. Rs.99 instead of Rs.100)
c. Synchro-pricing – It is the use of price to manage demand for a service by using customer sensitivity to prices. (For example, Internet service providers charge for the connection time during day when the demand is peak and offer it free during the night when the demand is less).

d. Penetration pricing – New services are introduced at low prices to stimulate trial and widespread use. For example, a mobile phone service provider may offer a new feature such as 'Voice sms' at a low 'introductory' price for quick penetration.

2. Value is whatever I want in a product or service – When the customer is concerned principally with the 'get' components of a service, monetary price is not of primary concern. The service is valued by the desirable intrinsic attributes it possesses and priced accordingly. The appropriate pricing approaches are:

a. Prestige pricing – It is used by service firms who offer high quality or status services. Customers of these firms actually value the high price because it represents prestige or a quality image. For example, consider a Golf club membership.

b. Skimming pricing – This is a strategy in which new services are introduced at high prices with large promotional expenditures. Many customers are more concerned about obtaining the service than about the cost of the service.

3. Value is the quality I get for the price I pay – When the customer primarily considers quality and monetary price, the task of the marketer is to understand what 'quality' means to the customer and then to match quality level with price level. The appropriate pricing approaches are:

a. Value pricing – In the current usage, it involves assembling a bundle of services that are desirable to a wide group of customers and then pricing them lower than they would cost alone. For example, many fast food restaurants offer a value meal consisting of many items in the menu. It represents giving more for less.

b. Market segmentation pricing – A service marketer charges different prices to groups of customers for what are perceived to be different quality levels of service, even though there may not be corresponding differences in the costs of providing the services to each of these groups. For example, there may a differential pricing for members and non-members in a health club.

4. Value is what I get for what I give – When the customer considers all that he/she gets for a given price, including the accompanying products, the consumption context and the consumption result, t e service marketer may consider the following approaches to arrive at the final price:

a. Price framing – Because many customers do not possess accurate reference prices for services, service marketers are more likely than product marketers to organize the price information for customers so they know how to view it.

Marketers provide a price anchor. If the customers accept the anchor, they view the price and service package favorably.

b. Price bundling – Some services are consumed more effectively in conjunction with other services. When customers find value in a package of services that are inter-related, price bundling (that is, pricing and selling services as a group rather than individually) is an appropriate strategy.

c. Complementary pricing – Services that are highly inter-related can be leveraged by using complementary pricing tactics such as captive pricing, two-part pricing and loss leadership. In captive pricing, the firm offers a base service or product and then provides the supplies or peripheral services needed to continue using the service. In two-part pricing, the service price is broken into a fixed fee plus variable usage fees. In loss leadership, a familiar service is priced low to attract customers and then other services available at higher prices are revealed.

d. Results-based pricing – In service industries (such as legal consulting) in which outcome is very important but uncertainty is high, the most relevant aspect of value is the 'result' or the 'outcome' of the service. Pay-for-performance models are gaining popularity in pricing the services of an ad agency. Money-back guarantees are another example for this pricing tactic.

Competition-Based Approach

Competition-based pricing approach may take the form of going-rate pricing or sealed-bid pricing. In going-rate pricing, the firm bases its price largely on competitors' prices, with less attention paid to its own cost or to demand. In oligopolistic industries (where there are a few large service providers), firms normally charge the same price. It is a popular pricing method. When demand elasticity is hard to measure, firms feel the going price represents the collective wisdom of the industry concerning the price that will yield a fair return. Competition-based pricing is also used when firms bid for jobs. Using sealedbid pricing, a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand. The firm wants to win a contract and winning the contract requires pricing lower than other firms. Yet, the firm cannot set its price below a certain level. It cannot price below cost without hurting its position. In contrast, the higher the firm sets its price above its costs, the less its chance of getting the contract.

Many firms follow the dominant competitors, particularly the price leader, in setting the price. The main advantages of this method are:

(1) It is a very simple method
(2) It follows the main market trend
(3) It has relevance to the competitive standing of the firm
(4) Holding to the going price will prevent harmful price wars

The major disadvantages and limitations of following competitors are:

(1) If the competitors' price decisions are unrealistic, the follower will also be going wrong on the price
(2) The cost factors of the follower may not be similar to that of the competitors'
(3) The pricing objective of the firm could be different from that of the competitors'
(4) Sometimes the competitor may initiate price change for wrong reasons

Initiating Price Changes

After developing their price structures and strategies, service firms may face occasions when they want to cut or raise prices. The following situations may arise:

➢ Initiating price cuts – Reasons for a firm to cut price are excess capacity, unable to increase business through promotional efforts, service efficiency improvement, follow-the-leader pricing and to dominate the market

➢ Initiating price increases – Reasons for a company to increase price are cost inflation or excess demand

➢ Buyer reactions to price changes –Buyers will associate price with quality when evaluating services they have not experienced directly. They use it as a simple heuristic to judge.

➢ Competitor reactions to price changes – Competitors are most likely to react when the number of firms involved is small, when the service is similar and when buyers are well informed.

➢ Responding to price changes – While reacting to competitor's price changes, the issues to consider are: Why did the competitor change the price? Is it going to be temporary or permanent? Are other competitors going to respond and what are their likely responses? Of course, the firm must consider its own position and the possible customer reactions to price changes.

Channel Management (Place)

Firms must carefully choose how and where their goods reach consumers by managing their distribution channels. A distribution channel can be defined as an organization system of marketing institutions and their inter-relationships that promote the physical and title flow of goods and services from producers to consumers. It overcomes the major time, place and possession gaps that separate goods and services from those who would use them. It provides ultimate users with convenient ways to obtain the goods and services they desire. The choice of distribution channels should support the firm's overall marketing strategy. Figure shows the various members and flows in marketing channels.

Consider for example, the distribution channel of Air Deccan, India's leading lowcost airliner. Apart from directly selling a ticket (e-ticket) from the airline's website, www.airdeccan.net, it also sells through an arrangement with Reliance Web World (a chain of Internet cafés) and Indian Oil retail outlets (petrol bunks). There is a limited, if not, full scale distribution, through the travel agents also. As a result, Air Deccan uses multiple channels.

Channel Functions

The marketing literature identifies the following as the functions performed by the members of the marketing channel:

1. Information: gathering and distributing marketing research and intelligence information about the marketing environment
2. Promotion: developing and spreading persuasive communications about an offer
3. Contact: finding and communicating with prospective buyers
4. Matching: shaping and fitting the offer to the buyer's needs, including such activities such as manufacturing, assembling and packaging
5. Negotiation: agreeing on price and other terms of the offer so that ownership or possession can be transferred
6. Physical distribution: transporting and storing goods
7. Financing: acquiring and using funds to cover the costs of channel work
8. Risk taking: assuming financial risks such as the inability to sell inventory at full margin.

The first five functions help to complete transactions. The last three help to fulfill the completed transactions. All these functions have three things in common:

➢ They use scarce resources

➢ They can often be performed better through specialization

➢ They can be shifted among channel members

Shifting functions to the channel members may keep producer costs and prices low, but channel members must add a charge to cover the cost of their work. To keep costs low, functions should be assigned to channel members who can perform them most efficiently.

Service Intermediaries

In a typical service marketing context, two service marketers are involved in delivering service through intermediaries: the service principal (originator) and the service deliverer (intermediary). For example, in the fast food industry, Pizza Hut is the service principal and the outlet in Pondicherry run by a franchisee is the service deliverer. Service intermediaries perform important functions for the service principal. They often coproduce the service, fulfilling service principal's promises to customers. In contrast to channels for products, channels for services are almost always direct, if not to the customer then to the intermediary that sells to the customer. Because services cannot be owned, there are no titles or rights to most services that can be passed along a delivery channel. Because services are intangible and perishable, inventories cannot exist, making warehousing a dispensable function. In general, because services cannot be produced, stored and then retailed as goods can, many channels available to product firms are not feasible for service firms. Many of the primary functions of channel members have no meaning in services. The focus in service distribution is on identifying ways to bring the customer and principal or its representative together.

Service Channel Options
The options for service distribution are limited to franchisees, agents, brokers and electronic channels.
➢ Franchisees are service outlets licensed by a principal to deliver a unique service concept it has created or popularized (Example: fast-food chains like McDonald's)
➢ Agents and brokers are representatives who distribute and sell the services of one or more service suppliers (Example: Insurance agents)
➢ Electronic channels include all forms of service provision through television, telephone, interactive media and the Internet. (Example: a hotel website facilitating online reservation)
The following table highlights the benefits and challenges in the service channel options.
Benefits and challenges in service channel options
Benefits Challenges
Through franchising
For Franchisers
➢➢ Leveraged business format for greater expansion and revenues
➢➢ Consistency in outlets
➢➢ Knowledge of local markets
➢➢ Shared financial risk and more working capital
For Franchisees
➢➢ An established business format
➢➢ National or regional brand marketing
➢➢ Minimized risk of starting a business
➢➢ Difficulty in maintaining and motivating franchisees
➢➢ Highly publicized disputes and conflict
➢➢ Inconsistent quality
➢➢ Control of customer relationship by intermediary
➢➢ Encroachment

➢➢   Disappointing profits and revenues

➢➢   Lack of perceived control over operations

➢➢   High fees

Through agents and brokers

➢➢   Reduced selling and distribution costs

➢➢   Intermediary's possession of special skills and knowledge

➢➢   Wide representation

➢➢   Knowledge of local markets

➢➢   Customer choice

➢➢   Loss of control over pricing and other aspects of marketing

➢➢   Representation of multiple service principals

Through electronic channels

➢➢   Consistent delivery for standardized services

➢➢   Low cost

➢➢   Customer convenience

➢➢   Wide distribution

➢➢   Customer choice and ability to customize

➢➢   Quick customer feedback

➢➢   Customers are active, not passive

➢➢   Lack of control of the electronic environment

➢➢   Price competition

➢➢   Inability to customize with highly standardized services

➢➢   Lack of consistency due to customer involvement

➢➢   Requires changes in consumer behaviour

➢➢   Security concerns

➢➢   Competition from widening geographies

Channel Levels

Marketing channels can be described by the number of channel levels. (Refer to Figure). Each layer that performs some work in bringing the product and its ownership/ consumption closer to the final buyer is a channel level. Because the producers and the final consumer both perform some work, they are part of every channel. The number of intermediary levels (channel members) is used to indicate the length of a channel. As a result, one can have a short or long marketing channel depending on the number of intermediary levels that exist between the producer and the consumer. The following table describes the factors that affect distribution channel strategy.

Factors that affect distribution channel strategy
Characteristics of short channels
Characteristics of long channels
Market factors ➢➢   Business users (B2B)

➢➢   Geographically concentrated

➢➢   Extensive technical knowledge and regular servicing required

- ➢➢ Consumers (B2C)
- ➢➢ Geographically diverse
- ➢➢ Little technical knowledge and regular servicing not required

Product factors ➢➢ Large orders
- ➢➢ Perishable
- ➢➢ Complex
- ➢➢ Expensive
- ➢➢ Small orders
- ➢➢ Durable
- ➢➢ Standardized
- ➢➢ Inexpensive

Producer factors ➢➢ Manufacturer has adequate resources to perform channel functions
- ➢➢ Broad product line
- ➢➢ Channel control important
- ➢➢ Manufacturer lacks adequate resources to perform channel functions
- ➢➢ Limited product line
- ➢➢ Channel control not important

Competitive factors ➢➢ Manufacturer feels satisfied with marketing intermediaries' performance in promoting products
- ➢➢ Manufacturer feels dissatisfied with marketing intermediaries' performance in promoting products

Channel Issues

Channel managers often must work to resolve channel conflicts. Distribution channels work smoothly only when members cooperate in well-organized efforts to achieve maximum operating efficiencies, yet channel members often perform as separate, independent and even competing forces. Too often marketing institutions see only one step forward or backward along a channel. They think about their own supplies and customers rather than about vital links throughout the channel. Key problems with intermediaries include channel conflicts over objectives and performance, conflict over costs and rewards, difficulty controlling quality and consistency across outlets, tension between empowerment and control and channel ambiguity.

➢ The parties involved in delivering services do not always agree about how the channel should operate. The conflict most often centres on the parties having different goals, competing roles and rights and conflicting views of the way the channel is performing.

➢ The monetary arrangement between those who create the service and those who deliver it is a pivotal issue of contention.

➢ One of the biggest difficulties for both principals (producers) and their intermediaries (channel members) involves the inconsistency and lack of uniform quality that result when multiple outlets deliver services. When a poor performance occurs in a single outlet, the service principal (who probably has franchised out the service) suffers because the entire brand and reputation are affected and other intermediaries endure negative attributions to their outlets.

➢ In many service situations, the principal and the intermediaries attained profits and longevity by the principal's controlling virtually every aspect of the intermediaries' businesses. Such control can have negative influences within intermediaries. They think their freedom and creativity is curbed.

➢ When the channel is highly empowered, doubt exists about the roles of the service firm and its intermediaries about many marketing activities. It may lead to confusion and cause conflict.

Marketing Communications (Promotion)

Modern marketing calls for more than developing a good product, pricing it attractively and making it available to target customers. The whole marketing mix must be integrated to deliver a consistent image and strategic positioning. Firms must communicate continuously with their present and potential customers. Every firm is inevitably cast into the role of communicator and promoter. Promotion is the function of informing, persuading and influencing the consumer's purchase decision. Consumers receive marketing communications – messages that deal with buyer-seller relationships – from a variety of media, including television, magazines and the Internet. Marketers can broadcast an ad on television network to mass markets or design a customized direct-mail appeal targeted to a small market segment (even a segment of one customer!). Each message the consumer receives from any source represents the brand or firm. Unless a firm coordinates all these messages, the consumer can become confused and may entirely tune out the message. To prevent this loss of attention, marketers are turning to integrated marketing communications (IMC) which coordinate all promotional activities to produce a unified, customer-focused promotional message.

Promotion mix

A firm's total marketing communications program, called its promotion mix, consists of a specific blend of advertising, sales promotion, public relations and personal selling to achieve advertising and marketing objectives. The five major promotional tools are:

➢ Advertising – Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor

Comparison of the five promotional mix elements

Personal selling Advertising Sales promotion Direct marketing Public relations

Advantages ➢➢   Permits measurement of effectiveness

➢➢   Elicits an immediate response

➢➢   Tailors the message to fit the customer

➢➢   Reaches a large group of potential consumers for a relatively low price per exposure

➢➢   Allows strict control over the final message

➢➢   Can be adapted to either mass audiences or specific audience segments

➢➢   Produces an immediate consumer response

➢➢   Attracts attention and creates product awareness

➢➢   Allows easy measurement of results

➢➢   Provides shortterm sales increases

➢➢   Generates an immediate response

➢➢   Covers a wide audience with targeted advertising

➢➢   Allows complete, customized, personal message

➢➢ Produces measurable results

➢➢ Creates a positive attitude toward a brand or firm

➢➢ Enhances credibility of a brand or firm

Disadvantages ➢➢ Relies almost exclusively upon the ability of the salesperson

➢➢ Involves high cost per contact

➢➢ Does not permit totally accurate measurement of results

➢➢ Usually cannot close sales

➢➢ Is non-personal in nature

➢➢ Is difficult to differentiate from competitors' efforts

➢➢ Suffers from image problem

➢➢ Involves a high cost per reader

➢➢ Depends on quality and accuracy of mailing lists

➢➢ May annoy consumers

➢➢ May not permit accurate measurement of effect on sales

➢➢ Involves much effort directed toward nonmarketing

➢ Sales promotion – Short-term incentives to encourage the purchase or sales of a product or service

➢ Public relations – Building good relations with the firm's various publics by obtaining favourable publicity, developing a good corporate image, and handling or heading off unfavourable rumours, stories and events.

➢ Personal selling – Oral presentation in a conversation with one or more prospective buyers for the purpose of making sales.

➢ Direct marketing – The use of direct communication to a consumer designed to generate a response in the form of an order (direct order); a request for further information (lead generation); or a visit to a place of business to purchase specific goods/services (traffic generation).

Steps in Developing Effective Communication
The following are the steps in developing effective communication.
1. Select the target audience, including potential buyers, current users and possibly others who influence the buying decision.
2. Determine the communication objectives, typically involving such goals as awareness, knowledge, liking, preference, conviction and purchase.
3. Decide on a budget, including how much to spend on the total campaign as well as what to allocate to various promotion types.
4. Create a message, capturing what to say, how to say it and who will deliver the message.
5. Choose media, among them personal communication channels such as personal selling or non-personal communication channels such as television and newspapers.
Media can also be distinguished as mass media (such as television) and targeted media (such as specialized magazines and direct mail).
6. Collect feedback, which includes researching how effective the communications were in meeting the objectives.

Services Marketing Communication

Service firms must add to the traditional communications or promotion mix, a concern about the ways that customers receive information about services through interactive marketing or marketing between employees and customers. Refer to the services marketing triangle show in Figure. It demonstrates that the customer of services is the target of two types of marketing communication. First, external marketing communication extends from the firm to the customer and includes such traditional communication channels as advertising, sales promotion and public relations. Second, interactive marketing communication involves the messages that employees give to customers through such channels as personal selling, customer service interactions, service encounter interactions and servicescapes (described in section 8).

Services Marketing Triangle
Integrated Services Marketing Communication
To match service delivery with service promises, the following strategies are recommended: manage service promises, manage customer expectations, improve customer education and manage internal marketing communications.
Manage Service Promises
In manufacturing physical goods, the departments that make promises and those that deliver them can operate independently. In services, however, the sales and marketing departments make promises about what other employees in the organizations will fulfill. Because what employees do cannot be standardized like physical goods produced mechanically, greater coordination and management of promises are required. Successful services advertising and personal selling becomes the responsibility of both marketing and operations. Intangibility makes services advertising different from product advertising and difficult for marketers. The intangible nature of services creates problems for consumers both before and after purchase. Mittal (1999) has suggested services advertising strategies to overcome the challenges posed by the intangible nature of services.
Service marketers have developed the following guidelines for service advertising effectiveness:
➢ Use narratives to demonstrate the service experience
➢ Present vivid information
➢ Use interactive imagery
➢ Focus on the tangibles
➢ Feature service employees in communication
➢ Promise what is possible
➢ Encourage word-of-mouth (WOM) communication
➢ Feature service customers
➢ Use transformational advertising
Manage Customer Expectations
Many service firms find themselves in the position of having to tell customers that services previously provided will be discontinued or available only at a higher price. Here are four strategies for a service firm to gracefully give the customer news about what to expect.
Services advertising strategies matched with properties of intangibility
Property of intangibility
Advertising strategy Description

Incorporeal existence

Physical representation Show physical components of service that are unique, indicate high quality and create the right association

Generality Make the message claim specific by

➢➢ System documentation

➢➢ Performance documentation

➢➢ Service performance episode

Objectively document physical system capacity by showing facts and figures

Document and cite past positive performance statistics

Present a vivid story of an actual service delivery incident that relates to the important service attribute

Abstractness Service consumption episode Capture and display typical customer benefiting from the service, evoking particular incidents

Nonsearchability

Performance documentation

Consumption documentation

Cite independently audited performance

Obtain and present customer testimonials

Impalpability Service process episode

Case history episode

Present a vivid documentary on the stepby- step service process

Present an actual case history of what the firm did for a specific client

➢ One way to reset expectations is to give the customer options for any aspects of service that are meaningful, such as time and cost. With the choice, clients can select that aspect of the trade-off (time or money) that is most meaningful to them. Making the choice solidifies the client's expectations of service.

➢ Product companies are accustomed to offering different versions of their products with prices commensurate with the value customers perceive. This type of formal bundling and pricing can be accomplished in services, with the extra benefit of managing expectations.

➢ A service provider can educate the customer the criteria by which to evaluate the service. The provider who does this in a credible manner will have an advantage in shaping the evaluation process.

➢ Service providers must learn to present their offerings in terms of value and not on price alone. Such a value-centred negotiation can lead to more realistic expectation in the customer.

Improve Customer Education

The nature of services demand that customers perform their roles properly for many services to be effective. If the customer forgets to perform this role, or performs it improperly, disappointment may result. For this reason, communication to customers can take the form of customer education. The following customer education approaches can help match promises with delivery:

➢ Prepare customers for the service process

➢ Confirm performance to standards and expectations

➢ Clarify expectations after the sale

➢ Teach customers to avoid peak demand periods and seek slow demand periods

Manage Internal Marketing Communication

Internal marketing communications can be both vertical and horizontal.
Vertical communications are either downward (from management to employees) or upward (from employees to management). Horizontal communications are those across functional boundaries in an organization. Firms must give customer contact employees the information, tools and skills to perform successful interactive marketing through downward communication. Upward communication is also necessary in closing the gap between service promises and service delivery. Having an open upward communication can prevent service problems before they occur and minimize them when they do occur. Horizontal communication must be facilitated to coordinate efforts for service delivery. It is important to open channels of communication between marketing and operations personnel for the potential for conflict between these two is high. The back-office and support personnel typically do not interact directly with external customers. Still they can be aligned with external customers through mechanisms like interaction and also by creating cross-functional teams.

People's Role in Service Firms

The people element in the service marketing mix refers to all of the human actors who play a part in service delivery and thus influence the buyer's perceptions. Two groups of people play important roles in the delivery of quality services – the employees and customers. Service employees create satisfied customers and build customer relationships.
The front-line service providers are enormously important to the success of the firm. They are responsible for understanding customer needs and for interpreting customer requirements in real time. Customer participation at some level is inevitable in service delivery. As a result, the customers also play unique roles in service delivery situations. Because customers are present during service production, they can contribute to or detract from the successful delivery of the service and to their own satisfaction. In many situations, employees, customers and even others in the service environment interact to produce the ultimate service outcome.

Critical Importance of Service Employees

Front-line employees and those supporting them from behind the scenes are critical to the success of any service organization because they are the service, they are the organization in the customer's eyes, they are the brand and they are marketers. Customers' perceptions of service quality will be impacted by the customer-centric behaviours of employees. In fact, all of the five dimensions of service quality (reliability, responsiveness, assurance, empathy and tangibles) can be influenced directly by service employees. Satisfied employees make for satisfied customers. The front-line service employees are referred to as boundary spanners because they operate at the organization's boundary. They serve a critical function in understanding, filtering and interpreting information and resources to and from the organization and its external constituencies. They also exert emotional labour that goes beyond the physical or mental skills needed to deliver quality service. Friendliness, courtesy, empathy and responsiveness directed toward customers require huge amounts of emotional labour from the front-line employees who should this responsibility for the organization. To build a customer-oriented, service-minded workforce, a service firm must

➢ Hire the right people
• Compete for the best people in the talent market

• Hire for service competencies and service inclination
• Be the preferred employer
➢ Develop people to deliver service quality
• Train for technical and interactive skills
• Empower employees
• Promote teamwork
➢ Provide the needed support systems and
• Develop service-oriented internal processes
• Provide supportive technology and equipment
• Measure internal service quality
➢ Retain the best people
• Include employees in the firm's vision
• Treat employees as customers
• Measure and reward strong service performers

The Importance of Customers in Service Delivery

Recognition of the role of customers in service delivery is reflected in the definition of the people element of the services marketing mix. The 'service audience' (comprising of the customer receiving the service and other customers in the service environment) contribute to the service outcome through appropriate or inappropriate, effective or ineffective, productive or unproductive behaviours. Table summarizes the levels of customer participation across different services.

In many service contexts, customers receive the service simultaneously with other customers or must wait for their turn while others are being 'serviced'. Either way, the presence of 'other customers' in the service environment can affect the service delivery process or its outcome.

When 'other customers' exhibit disruptive behaviours, cause delays, overuse, crowd and complain on incompatible needs, it negatively affects the service experience.

Advances in technology have allowed the proliferation of a wide range of self-service technologies (SSTs) that manage the customer participation in service delivery. They bring in a great degree of standardization and consistency to the service experience, at the same time saving others resources (including employees) for the service firm. Popular examples of SSTs include ATMs, Internet banking, Package tracking, e-learning, airline e-ticket, online shopping and auctions. The level and nature of customer participation in the service process are strategic decisions that can impact a firm's productivity, its competitive positioning, service quality and customer satisfaction. The goal of a customer participation strategy are to increase productivity and customer satisfaction while simultaneously decreasing uncertainty due to unpredictable customer actions. A customer participation strategy may be outlined as follows:
➢ Define customers' jobs
• Helping oneself
• Helping others
• Promoting the brand/firm
➢ Recruit, educate and reward customers
• Recruit the right customers
• Educate and train customers to perform effectively

• Reward customers for their contributions
• Avoid negative outcomes of inappropriate customer participation
➢ Manage the customer mix
• Appropriate market segmentation
• Compatibility management

Servicescapes (Physical Evidence) and their Roles

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. Physical evidence is important for communicating about credence services. Think of the impressions a theme part may leave on its customers using brightly coloured displays, the music, the fantastic rides and the constumed characters – they all reinforce the feelings of excitement and fun.

Physical evidence is important because the services are intangible. They help to tangibilize the intangible service as customers go by tangible cues, to evaluate the service before its purchase and to assess their satisfaction with the service during and after consumption. Table represents the elements and examples of physical evidence.

Elements of physical evidence

Servicescape Other tangibles

Facility exterior
Exterior design
Signage
Parking
Landscape
Surrounding environment

Facility interior
Interior design
Equipment
Signage
Layout
Air quality/temperature
Business cards
Stationery
Billing statements
Reports
Employee dress
Uniforms
Brochures
Web pages
Virtual servicescape

Airline
Airline gate area
Airplane exterior
Airplane interior (decor)

Music concert

Seating
Stadium exterior
Ticketing area
Audience zones
Airline
Tickets
Food
Uniforms
Website
Music concert
Signs
Tickets
Program

A classification of service firms can be arrived based on variations in form (elaborate/ lean) and use (self-service, interpersonal service, remote service) of the servicescape. Some service environments are very simple, with few elements, few spaces and few pieces of equipment. Such environments are termed lean. Examples include ATM and information kiosks. Other servicescapes are very complicated, with many elements and many forms. They are termed elaborate environments. Examples include hospitals and insurance companies.

Roles of the Servicescape

The servicescape plays many roles which help the service firms overcome some of the limitations brought in by the characteristics of services themselves. For example, similar to a tangible product's package, the servicescape (along with other elements of physical evidence) 'wrap' the service to create an image for what is 'inside'. The servicescape is the outward appearance of a service firm and thus can be critical in forming initial impressions or setting up customer expectations. For example, a coffee shop's exteriors, signage and frontage can covey a up-scale image to the customers. A well-designed, functional facility can make the service a pleasure to experience from the customer's point of view and a pleasure to perform from the employee's. On the other hand, poor and inefficient design may frustrate both customers and employees. For example, a coffee shop with a spacious layout, prominent and well lit interior signages will make the customers feel comfortable. The design of the servicescape aids in the socialization of both employees and customers in the sense that it helps to convey expected role, behaviours and relationships.

For example, more and more coffee shops are adopting a living room style of seating with comfortable lounge chairs and tables set to encourage interaction and staying longer.

The design of the physical facility can differentiate a firm from its competitors and appeal to the market segment the service is intended for. For examples, in coffee shops, the signage, colours used in décor and displays and type of music played appeal to the intended market segment.

Thus the servicescape plays the role of package, facilitator, socializer and differentiator.

Servicescape Effect on Consumer Behaviour

A basic model of consumer behaviour follows the basic stimulus-organism-response theory. Servicescape as a stimulus evokes certain responses from the people (employees and customers) in its vicinity. For example, it may cause an approach (say, desire to stay)

or avoidance (say, a desire not to stay) behaviour in an individual. Apart from influencing individual behaviour, the servicescape influences the nature and quality of customer and employee interactions, most directly in interpersonal services. Servicescape as a stimulus, may not only cause a particular behaviour, but also produce internal responses. Employees and customers respond to dimensions of their physical surroundings cognitively (e.g. perceptions), emotionally (e.g. excitement) and physiologically (e.g. physical comfort/discomfort). A servicescape can be thought of as a form of non-verbal communication imparting meaning through the physical elements in the servicescape. Environmental dimensions of the physical surroundings can include all of the objective physical factors that can be controlled by the firm to enhance (or constrain) employee and customer actions.

These factors can be categorized into three dimensions, namely, ambient conditions (such as temperature, lighting, noise, scent and colour), spatial layout (arrangement of machinery, equipment and furnishings) and functionality (ability of the items in spatial layout to facilitate the accomplishment of customer and employee goals) and signs (as labels, for directional purposes and to communicate rules of behaviour), symbols and artifacts. Signs, symbols and artifacts are particularly important in forming first impressions and for communicating new service concepts. When customers are unfamiliar with a service firm, they will rely on the above discussed environmental cues to help them judge the place and form their expectations.

Guidelines for Physical Evidence Strategy
Some general guidelines provided by Bitner (1993) for an effective physical evidence strategy are listed below:

➢ Recognize the strategic impact of physical evidence – For an evidence strategy to be effective, it must be linked clearly to the firm's overall goals and vision.

➢ Map the physical evidence of service – Everyone should be able to see the service process and the existing elements of physical evidence.

➢ Clarify role of the servicescape – To identify opportunities and decide just who needs to be consulted in making facility design decisions.

➢ Assess and identify physical evidence opportunities – One question to ask is, are there missed opportunities to provide service evidence?

➢ Be prepared to update and modernize the evidence – Some aspects of the evidence require frequent if not periodic updating and modernizing.

➢ Work cross-functionally – Evidence decisions are made over time and by various functions within the organization.

Service Blueprinting (Process)
The 7th P of service marketing mix is process. It refers to the actual procedures, mechanisms and flow of activities by which the service is delivered – the service delivery and operating systems. The service process is designed and specified using the service blueprinting tool. To march service specifications to customer expectations, the characteristics of the critical service process must be described objectively and depicted for the employees, customers and managers alike to know what the service is, what their role in its delivery is and understand all of the steps and flows involved in the service process. Shostack (1984)

describes service blueprinting as a tool that addresses the challenges of designing and specifying intangible service processes. A service blueprint is a picture or map that accurately portrays the service system so that the different people involved in providing it can understand and deal with it objectively regardless of their roles or their individual points of view. It is a tool for simultaneously depicting the service process, the points of customer contact and the evidence of service from the customer's point of view. It provides a way to break a service down into its logical components and to depict the steps or tasks in the process, the means by which the tasks are executed and the evidence of service as the customer experiences it.

The key components of service blueprints are customer actions, front-end contact employee actions, back-end contact employee actions and support processes. The customer actions encompass the steps, choices, activities and interactions that the customer performs in the process of purchasing, consuming and evaluating the service. The front-end contact employee actions are visible to the customer whereas the back-end contact employee actions are invisible.

The support processes cover the internal services, steps and interactions that take place to support the contact employees in delivering the service. A line of interaction is drawn to represent direct interactions between the customer and the organization. A line of visibility separates all service activities that are visible to the customer from those that are not visible. A line of internal interaction separates contact employee activities from those of other service support activities and people. One of the most significant differences in service blueprints compared with other types of process flow diagrams is the inclusion of customers and their views of the service process.

Building a Blueprint
Through the process of developing the blueprint, many intermediate goals can be achieved: clarification of the concept, development of a shared service vision, recognition of complexities and intricacies of the service that are not initially apparent and delineation of roles and responsibilities. The following are the steps in building a service blueprint:
1. Identify the process to be blueprinted
2. Identify the customer or customer segment
3. Map the process from the customer's point of view
4. Map contact employee actions, front-end and back-end and/or technology actions
5. Link contact activities to needed support functions
6. Add evidence of service at each customer action step
When people begin to develop a blueprint, it quickly becomes apparent what is actually known about the service. Sometimes the shared knowledge is very little. Biases and prejudices are made explicit, and agreements and compromises must be reached. The process itself promotes cross-functional integration and understanding.

Self Assessment Questions
1. Use a product from the hospitality services industry to explain the following terms:
➢ Facilitating product
➢ Supporting product
➢ Augmented product

2. As an executive healthcare manager, how would you gain new product ideas?
3. Apply the concept of the product life cycle to a bank. How does a bank keep its products/services from going into the decline stage.
4. Go to the www.priceline.com website. Familiarize yourself with the way it works. Comment on the pricing mechanism at Priceline.com.
5. Consider that you are the Director of the Directorate of Distance Education, Pondicherry University. Prepare a value price package that is appealing to students. Describe your approach. How does it differ from existing offerings?
6. One way of increasing revenue is through up-selling. Give examples from the services industry of when up-selling can result in a more satisfied customer.

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7. List five services that could be distributed on the Internet. Why are these particular services appropriate for electronic distribution?
8. In what specific ways does the distribution of service differ from the distribution of goods?
9. Develop a brief franchising plan for a service concept or idea that you believe could be successful.
10. Which form of internal marketing communication – vertical or horizontal – would you invest in if you had to select between them as an organization's CEO? Why?
11. Apply the five major tools in the marketing communication mix to a hospitality firm by showing how a company can use all these tools.
12. Compare the different media options for a service marketer.
13. Discuss the general importance of customers in the successful delivery of service using your own personal examples.
14. Think of a service establishment where customers can influence each other (say, airline).
15. blueprint. What is the 'evidence of service' from your point of view as a customer?

CASE STUDY
Market penetration, market development, product development and product diversification are the different strategic decisions helping the financial organizations in marketing the services profitably and successfully.
Questions
(a) Identify a bank of India where these strategies are in vague.
(b) Suggest changes for better performance.

UNIT - IV
Delivering Quality Services

Learning Objectives

➢ To identify the basic principles underlying the concept of service quality

➢ To define the determinants of service quality

➢ To explain the potential problems and correct use of SERVQUAL and gap theory in measuring service quality

➢ To outline the various gaps in the evaluation of service quality

➢ To specify the strategies that can be sued to reduce the size of each of the service quality gaps

➢ To understand the concepts of Total Quality Management, ISO9000, Six Sigma and the Malcom-Baldrige Model

Contents

➢ Introduction

➢ Concept of Service Quality

➢ SERVQUAL and Gap theory

➢ Various Gaps in the evaluation of service quality

➢ Strategies to bridge the service quality gaps

➢ The concepts of TQM, ISO9000, Six Sigma & Malcom-Baldrige Model

Introduction

Service quality is very important for customers as well as service providers. To achieve competitive advantage, the service organizations are focusing more on the quality.

The concept of quality has drawn massive attention in academic and business circles. There are many definitions of quality. The word quality means different things to different people. To address such issues as the measurement of service quality, the identification of causes for shortfall in service quality and the design and implementation of corrective actions, it is essential for the service providers to have a common understanding of the concept of quality.

David Garvin identifies five perspectives on quality:

1. The transcendent view of quality is synonymous with innate excellence; a mark of uncompromising standards and high achievements. This view point is often applied to the performing and visual arts. It argues that people learn to recognize quality only through the experience gained from repeated exposure. From a practical stand point, however, suggesting that managers or customers will know quality when they see it is not very helpful.

2. The product-based approach sees quality as a precise and measurable variable. Differences in quality it argues, reflects differences in the amount of an ingredient or attribute possessed by the product. Because this view is totally objective, it fails to account for difference in the tastes, needs, and preferences of individual customers.

3. The premise that quality lies in the eyes of the beholder is the basis for user-based definitions. These definitions equate quality with maximum satisfaction. This demand-oriented, subjective perspective recognizes that the wants and needs of each customer is different.

4. The manufacturing oriented approach is basically supply based and is concerned with engineering and manufacturing practices. The manufacturing based approach focuses on

conformance to internally develop0ed specifications, which are often driven by productivity and cost-containment objectives.

5. Quality is defined in terms of value and price by value-based definitions. Quality comes to be defined as 'affordable excellence' by considering the trade off between performance and price.

These views of David Garvin help us to explain the conflicts that arise between managers in different functional areas. In many senses quality is subjective. For many people quality implies excellence or luxury. Quality can also be measured in terms of fitness for purpose. In seeking quality service, customer needs and expectations may vary. Service quality is not easy to measure in precise manner. The nature and characteristics of services can have an impact on quality issues.

➤ It is very difficult to measure and assess the service quality because of the **Intangibility** of many services.

➤ **Inseparability** of the service from the service provider highlights the role & influence of the people in the service transaction, and on quality levels.

➤ A service is never exactly repeated and will always be variable to certain extent because of the **heterogeneous** characteristic of service.

➤ The **perishable** nature of services can lead to customer dissatisfaction if demand cannot be met.

The most appropriate approach in defining and measuring service is the user-based approach. The idea that quality is subjective and will be strongly linked to the individual's needs and expectations recognizes that customers have different criteria for judging service quality.

This user-based approach equates quality with maximum levels of satisfaction.

Valarie Zeithaml, A.Parasuraman & Leonard Berry identified **Ten** criteria consumers use in measuring and assessing service quality.

Generic Dimensions Customers Use to Evaluate Service Quality

Valarie and her associates developed a survey research instrument called **"SERVQUAL"** to measure customer satisfaction with different aspects of service quality. This instrument is based on the assumption that the customers can measure a firm's service quality by comparing their perceptions of its service with their own expectations. "SERVQUAL" can be applied across a broad spectrum of service industries as a generic measurement tool. Reflecting the **five** important dimensions of service quality such, **Tangibles, Reliability, responsiveness, Assurance & Empathy,** the scale contains 21 perception items in its basic form and a series of expectation items.

On a wide range of specific service characteristics the respondents complete a series of scales that measure their expectations of companies in a particular industry. Respondents are subsequently asked to record their perceptions, using those same characteristics of a specific company whose services they have used. When perceived performance ratings are lower than expectations, this is a sign of poor quality. The reverse indicates good quality.

The Tangibles Dimension

In forming the evaluations the consumers often rely on the tangible evidence that surrounds the service because of the absence of a physical product. The tangibles dimension of 'SERVQUAL' compares consumer expectations with the firm's performance regarding the firm's ability to manage its tangibles. A firm's tangibles consist of a variety of objects such carpeting, desks, lighting, wall colours, brochures, daily correspondence and the appearance of the firm's employees. The tangibles component in 'SERVQUAL' is two-dimensional— one focusing on equipment and facilities, the other focusing on HR & communications materials.

The tangibles component of 'SERVQUAL' is obtained via four expectations questions i.e., E1 to E4 and four perception questions i.e. P1 to P4. The perception questions apply to the specific firm under investigation whereas the expectations questions apply to excellent firms within a particular industry. Comparing the perception scores with the expectation scores provides a numerical variable that indicates the tangibles gap. The smaller the number, the smaller the gap, and the closer consumers' perceptions are to their expectations. The items that pertain to the tangibles dimension are given below.

Tangibles Expectations
E1—Excellent firms will have modern-looking equipment.
E2—The physical facilities at excellent firms will be visually appealing.
E3—Employees of excellent firms will be neat in appearance.
E4— In an excellent firm, the materials associated with the service will be visually appealing.

Tangibles Perceptions
P1—Firm ABC has modern-looking equipment
P2—Firm ABC's physical facilities are visually appealing.
P3—Firm ABC's personnel are neat in appearance
P4—Materials associated with the service are visually appealing at firm ABC.

The Reliability Dimension
The reliability dimension reflects the consistency and dependability of a firm's performance. Consumers perceive the reliability dimension to be the most important of the five 'SERVQUAL' dimensions. Failure to provide reliable service generally translates into an unsuccessful firm. "SERVQUAL' measures the reliability gap asw shown below:

Reliability Expectations
E5— When excellent firms promise to do something by a certain time, they will do so.
E6— When customers have a problem, excellent firms will show a sincere interest in solving it.
E7—Excellent firms will perform the service right the first time.
E8—Excellent firms will provide their services at the time they promise to do so.
E9—Excellent firms will insist on error-free records.

Reliability Perceptions
P5—When firm ABC promises to do something by a certain time, it does so.
P6— Firm ABC shows a sincere interest in solving your problem whenever you have a problem.
P7—Firm ABC performs the service right the first time.
P8—Firm ABC provides its services at the time it promises to do so.
P9—Firm ABC insists on error-free records.

The Responsiveness Dimension

A Service firm's commitment to provide its services in a timely manner is reflected in responsiveness. The concern of the responsiveness dimension of "SERVQUAL' is the willingness &/or readiness of personnel to provide a service. Sometimes the customers may face a situation in which the employees are busy in their own talk with their other colleagues while ignoring the needs of the customers. This is an example of unresponsiveness.

The preparedness of the firm to provide the service is reflected in responsiveness.
The 'SERVQUAL' expectation and perception items that address the responsiveness gap are given below:

Responsiveness Expectations

E10— Employees of excellent firms will inform the customers exactly when services will be performed.

E11—Employees of excellent firms will give genuine service to customers.

E12—Employees of excellent firms will always be willing to help customers.

E13— Employees of excellent firms will never be too busy to respond to customer requests.

Responsiveness perceptions

P10— Employees of ABC firm will inform their customers when the service will be performed.

P11—Employees of ABC firm will give prompt & genuine service to customers.

P12—Employees of ABC firm are always willing to help customers.

P13—Employees of ABC firm are never too busy to respond to customer requests.

The Assurance Dimension

The competence of the firm, the courtesy it extends to its customers and the security of its operatives are addressed by the assurance dimension of 'SERVQUAL'. Competence in this context is the firm's knowledge & skill in performing its service courtesy refers to how the firm's employees deal with the customers & with their possessions. Courtesy includes such aspects as politeness, friendliness, and consideration for the customer's property. Security is also an important component of the assurance dimension. Security reflects a customer's feelings that he is free from risk, danger and doubt. The 'SERVQUAL' items used to address the assurance gap are given below.

Assurance Expectations

E14— The behaviour of personnel of excellent firms will instill confidence in customers.

E15—Customers of excellent firms will feel safe in their transactions.

E16—Personnel of excellent firms will be consistently courteous to customers.

E17— Personnel of excellent firms will have the knowledge to answer customer questions.

Assurance Perceptions

P14—The behaviour of personnel of ABC firm instill confidence in customers.

P15—Customers feel safe in their transactions with firm ABC.

P16—Personnel of firm ABC are consistently courte ous to their customers.

P17—Personnel of firm ABC have the knowledge to answer the customer questions.

The Empathy Dimension

The ability to experience another's feelings as one's own is called as empathy.
Empathetic firms have not lost touch with what it is like to be a customer of their own firm.
Empathetic firms understand the needs of their customers and make the services

accessible to their customers. Firms that do not provide their customers individualized attention and that offer operating hours convenient to the firm and not to its customers fail to demonstrate empathetic behaviour. The empathy dimension of 'SERVQUAL' addresses the empathy gap in the following manner.

Empathy Expectations

E18—Excellent firms will give individual attention to its customers.

E19—Excellent firms will have operating hours convenient to al their customers.

E20—Excellent firms will have personnel who give customers personal attention.

E21—Excellent firms will have the customers' best interest at heart.

E22— The specific needs of the customers will be understood by the employees of excellent firms.

Empathy Perceptions

P18—Firm ABC gives individual attention to customers.

P19—Firm ABC has operating hours convenient to all its customers.

P20—Employees of firm ABC give personal attention to all its customers.

P21—Firm ABC has customers' best interest at heart.

P22—Employees of firm ABC understand their customer's specific needs.

Limitations of 'SERVQUAL'

'SERVQUAL' is an excellent instrument for measuring service quality is not free from several limitations. The service providers must be well versed with the limitations of the instrument and also the gap theory methodology on which it is based. The major limitations of the 'SERVQUAL' instrument are discussed below:

1. The 'SERVQUAL' measures the expectations of the customers in an ideal firm in a particular service industry. This may or may not be relevant to the capabilities of a particular service firm or the group of service firms available to a customer.

2. Another frequent criticism of the 'SERVQUAL' instrument is its generic nature. Since it is not industry particular, it does not assess variables which may be industry specific.

3. Length of the 'SERVQUAL' questionnaire is another major issue of criticism. A combination of perception and expectation items of 'SERVQUAL' results in a 44 item survey instrument. The argument is that the 44 items are highly repetitive and unnecessarily increase the length of the questionnaire. Further argument is that the expectations section of the instrument is of no real value and that the perceptions section along should be used the measure the service quality.

4. Another limitation of 'SERVQUAL' instrument related with the gap methodology used for assessing the level of service quality. Evaluating consumer expectations after a service has been provided will bias the responses of consumers. If the customers had a positive experience, they will tend to report lower scores for their expectations, so there is a measurable gap between what they expected and the service they received. If customer had a negative experience, the opposite occurs. Customers tend to report higher scores for their expectations, so there would be a negative gap between expectations and perceived level of service.

5. Another frequent criticism of the 'SERVQUAL' instrument is that the five proposed dimensions of service quality - reliability, responsiveness, assurance, empathy and tangibles- do not hold up under statistical scrutiny. Consequently, opponents of

'SERVQUAL' question the validity of the specific dimensions in the measurement instrument.

6. The sixth major criticism of 'SERVQUAL' related to the instrument's ability to predict consumer purchase intentions. Research has indicated that the perception section alone of the 'SERVQUAL' scale is a better predictor of purchase intentions than the combined expectations-minus-perception instrument. The 'SERVQUAL' instrument is criticized on the point that the satisfaction has a more significant effect on purchase intentions than does service quality.

Concluding Remarks about 'SERVQUAL' instrument

1. The Relevance of Employees of Customer Relations Department

The 'SERVQUAL' instrument highlights many important points that service providers should consider while examining service quality. The attitudes and performance of customer relations executives determine heavily the perceptions of customers about the services. The interaction between employees and the customers directly determine the responsiveness, empathy and assurance dimensions. The tangible dimension depends partly on the appearance & dress of the employees of the service provider.

2. Process is Equally Important as Outcome

The customers judge the service based on the final outcome and also the process through which the service passes through. The nature and frequency of the service is also important in addition to its delivery. Finally the customer satisfaction depends on the production and consumption of the services.

3. Difficulty in Predicting Consumer Perceptions

There are several factors out side the control of the organization that may not be readily apparent, but the ratings of service quality dimensions will be influenced to a large extent by such factors.

Despite its limitations 'SERVQUAL' continue to be a frequently used instrument to measure service quality and is presently being modified to take into consideration the service quality issues in e-business. When used in conjunction with other forms of measurement, 'SERVQUAL' provides a valuable diagnostic tool for measuring the firm's service quality performance.

A Model of Service Quality

Consumers compare the service they received with the service with the expected in the process of assessing the quality of service. The mathematical formula to calculate the service quality can be expressed as P-E, where "P" is the consumer perceived level of service received and "E" is consumer expectations prior to the service encounter. A positive number would indicate consumer expectations were exceeded. A 'zero' would indicate the consumer expectations were met. A negative number would indicate that expectations were not met.

The figure given below presents a model of service quality that identified **Five** potential gaps.

The horizontal dashed line divides the service quality gaps that are formed related from the one gap above the dashed line that is consumer oriented.

Gap-5, which is the difference between what consumers received and what they expected, is the sum of Gap-1 to Gap-4. Gap-5 is affected by both direction and the

magnitude of the first four gaps.

A Model of Service Quality
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Gap-1 (The Knowledge Gap)
Gap-1 is the difference between what customers expected and what management
perceived customers expected. Gap-1 is also known as knowledge gap. It is the gap
between
what customers want and what managers think customers want.
Many service providers think they know what their customers want but are really
mistaken. Customers of a restaurant may prefer quality and taste of food over an attractive
arrangement of the tables. Customers of a hotel may be interested more in on-site
amenities
over comfortable rooms.
As result of knowledge gap many other mistakes may occur. The wrong facilities
may be given, the wrong employees may be appointed and the wrong training may be
extended. The services that the customers' desires are not offered, whereas services may
be provided that customers have no use for. A detailed knowledge of customers' desire
and then developing a solution into the service operating system may close this kind of
knowledge gap.
Factors influencing the Knowledge gap (Gap-1)
There are three main factors which influences the knowledge gap. They are:
Levels of Management
The managerial levels in the organization influence the size of the knowledge gap.
When more levels of management are added, the organizational hierarchy becomes more
complex and increased levels of management tend to become more distant from customers.
As a result of all this, the size of the knowledge gap tends to increase.
Strategies for reducing gap-1 (knowledge gap)
Upward Communication
Upward communication is the second important factor that influences the size of
the knowledge gap. Upward communication is the flow of information from front-line staff
to upper levels of the organization. As the bottom level employees interact more frequently
with customers, they are often more in touch with the needs of customers than the top
management. Therefore the increase in upward communication reduces the knowledge
gap
and vice versa.
Research Orientation
The attitude of the organization towards conducting research can influence a great
extent on the size of gap-1. As firm's research orientation increases the size of knowledge
gap reduces.
There are four strategies available to service providers to reduce the knowledge gap.
These are presented in the following table.
By interacting with customers, management can understand what customers expect
in terms of service quality and the customer's feelings about the service they have received.
Communication between management & customers is common in small service firms.
Whereas, in large service organizations, it is very difficult for the management to maintain

communication with customers.

As some of the customers may not be honest in their communication with service providers, to ensure open and honest communication, service firms can use marketing research. In case of a large corporation, the research can be performed by the marketing department; otherwise it can be performed by outside consultants. The focus of the marketing research must be on the service quality and consumer expectations of the service.

Upward communication plays a vital role in reducing the size of knowledge gap where the management is separated from the customer care staff. Open, non-threatening environment should be created to encourage the customer care personnel to communicate with top management. The top management should make a request to the customer care personnel for upward communication of ideas for improvement. For effective implementation of upward communication employees offering productive ideas should be recognized and rewarded.

Reducing the levels of management is one good strategy to reduce the size of the knowledge gap. As the layers of management increase the chances of management having a correct understanding of what customers want in terms of service quality will decrease. Therefore many service providers are seeking means to reduce the number of management levels.

Gap-2 (The Standard Gap)

Gap-2 is the difference between management's perception of consumer expectations and the conversion of these perceptions into service quality specifications. Management may understand and know what customers want but unable to translate these expectations into the exact service specifications. Gap-2 is also known as standard gap. At the time of developing standards the service firm should use a flow char of its operations to identify all points of contact between the firm and its customers. Detailed standards can be written for (1) The way the system should operate & (2) The behaviour of customer relations personnel at each point in the system.

Three causes of Standard gap (Gap-2)

1. The first cause of gap-2 is the indifferent attitude of management. Management may promise about providing high quality service, but in actual practice they may offer only the minimum level of service that will suffice. The intention is to avoid customer dissatisfaction but not to provide customer satisfaction. In the short run, this philosophy may succeed and generate greater revenue but in the long run customers will switch to those service providers who provide better service. Because of the pressure to generate short-term profits.

2. The second important reason for standard gap is insufficient resource.

3. The third important factor influencing gap-2 is the market conditions. The most common market condition impacting the standard gap is "Competitive Parity". This is a situation where the competitive service providers produce almost identical quality services. Often the service firms will match competitors' offerings to prevent the competitor from capturing additional market share. Instead of meeting the wants of the customers, the service firms will translate customer expectations into matching competitive offerings. As a result of this, there will be a gap between what

firms know customers expect and service specifications.

A second market condition affecting standard gap is monopoly markets such as public utilities, cable services etc. Each operates as a virtual monopoly with no competitors. These service providers may understand certain needs and expectations of the customers but may not convert them into service specifications unless it is a statutory requirement. This kind of situation is created because the cost of meeting certain customer expectations is higher than the additional income that could be earned.

Strategies For Reducing Standard Gap (Gap-2)

To reduce the size of Gap-2 service providers must have the commitment of top management. The mission statements of many organizations reflect on the firm's commitment to provide high level of service quality to its customers. But in actual practice the service providers focus on cost reduction, gross sales and Net Profit rather than a high level of service quality.

The two reasons for this discrepancy between mission statement and actual practice are the difficulty of measuring service and the ease of measuring cost, sales and profits. Secondly, the current reward system is often based on non-service –type criteria. Most of the employees are promoted and rewarded for generating greater sales, increasing net profits or reducing costs not for enhancing service quality.

The service firms must stat with a commitment by the management if at all there going to be serious about providing high quality service. The top management must set an example for their employees by committing to provide high level of service.

By setting service quality goals the standard gap can be reduced. While setting service quality goals, the management must keep in mind the customer, the service contact provider and the management. The customer relations team must understand the management's perspective and the need to generate a profit. The customer relations team should provide their team members with valuable inputs into the best process for achieving service quality goals. The top management must understand the possibilities in terms of operation.

The service quality goals must be customer oriented. While setting service quality standards, the customer wants and desires should be taken into consideration. The customers should be included in the goal setting process as it is advantageous to both management and customer relations personnel.

The size of gap-2 can be reduced by task standardization. Standardization can be done through hard technology, which is substituting machines or computers for people, or soft technology which is improving work methods. Methods are designed to standardize the operation and provide a uniform delivery of the service to customers, reducing the gap between management perception of consumer expectations and the conversion of those expectations into service quality specifications.

Gap-3 The Delivery Gap

The third service quality gap is the difference between the service quality specifications and the delivery of those specifications to the customer. The delivery gap occurs between the actual performance of a service and the standards set by management.

The existence of the delivery gap depends on both the willingness and the ability of employees to provide the service according to specification. Major reasons for this type of

gap are the variable and inseparable nature of services.

As most of the services are performed by people, the quality of service is highly dependent upon how well the service provider performs his job. If the services are provided
by the service contact personnel as specified, customers are usually satisfied and their expectations are met.

If employees do not provide the service as specified in the service specifications, customer expectations will not be met and customers will be dissatisfied. Causes and strategies for delivery gap are presented in the table.

Factors Influencing the Delivery Gap (Gap-3)

1. Employee's willingness to perform the service is one factor that influences the size of the delivery gap. Employee's willingness to provide a service can differ greatly from employee to employee and in the same employee over time. Because of frustration and dissatisfaction with the organization, many employees who start off working to their full potential often become less willing to do so over time. Further, a considerable range exists between what the employee is actually capable of accomplishing and the minimum the employee must do in order to keep his job. Most of the service firms find it very difficult to keep employees working at their full potential all the time.

2. Employee job fit is the second factor that influences the size of the delivery gap. Employees may have been appointed for jobs they are not competent to handle or to which they are unsuited temperamentally or they may not have been provided with appropriate training for the expected roles.

3. Role conflict is another common factor influencing the size of the delivery gap. The service firms may see an inconsistency between what the service manager expects employees to provide and the service their customers actually want, whether or not the knowledge gap has been closed.

4. Role ambiguity is another cause of the delivery gap. When employees do not understand the roles of their jobs or what their jobs are intended to accomplish, it results in role ambiguity. Sometimes, the employees may be unfamiliar with the service firm and its goals. The delivery gap widens as role ambiguity increases.

5. Dispersion of control is another reason for size of delivery gap. When the employees are not allowed to make independent decisions about individual cases they may feel alienated from the service. Employee alienation is bound to increase when control over certain aspects of the services moved to a different location. Employees experience **'learned helplessness'** and feel unable to respond to customer requirements. The delivery gap becomes wider, as the dispersion of control increases.

6. As a result of inadequate support, the delivery gap may also suffer. Inadequate support may be not receiving training on administration and usage of technology etc., essential for employees to perform their jobs in the best possible way. Even the best employees can be discouraged if they are forced to work with faculty equipment. Failure to properly support employees leads to a lot of wasted effort, poor employee productivity, unsatisfied customers, and an increase in the size of the delivery gap.

Strategies for Reducing Delivery Gap (Gap-3)

Team work is a common characteristic of successful service firms. A feeling of team work is created when employees see other employees and management as key members of the team. The lower level employee must feel that management from their immediate

superior to the CEO of the company cares about them and that they are a critical part of the firm's success. Among employees, there must be a spirit of cooperation and not competition.

When every employee is involved in the company and committed to providing a high level of service to customers, to the company, and to other employees, the size of the delivery gap can e reduced.

There must be a fit between employee skills and job requirements so that the employees can provide the services according to the job specifications. The service providers must employ people who have the ability to perform the job. Each employee should be trained to perform the job according to the procedures of the service firm.

As the technology is available, many service firms are using machines, tools and computers to help service employees in doing their job. The service employees must have proper equipment to perform their job according to the company standards. The service employees should be provided with appropriate equipment with proper condition and they should be educated on how to use the technology to improve the quality of their work. Computerized diagnostic equipment is necessary to diagnose problems with newer automobiles. The quality of the diagnoses is dependent upon the quality of the equipment, the condition of the equipment and the ability of the service technician to operate it.

The concept of perceived employee control is another important factor in reducing the delivery gap. The employee morale is enhanced; if they are allowed some flexibility and control in the service process. Flexibility and control will also allow service employees to modify the process to meet the particular needs and desires of the customers. The outcome of the service will become more predictable by having control of the service encounter.

The size of delivery gap is also influenced by the supervisory control system. The likelihood of employees doing the job according to the specification improves when they are encouraged and rewarded for meeting job specifications. However, often supervisors will tell employees to follow the correct job specifications but reward or punish employees on other criteria. Employees may be evaluated by their supervisors on such criteria as a balanced cash register for bank teller, the number of automobiles repaired by a mechanic, etc. When this happens, employees will reduce the specifications to improve whatever criteria will be used by their supervisor in their evaluations.

In many service contact positions the role conflict is inherent. The way in which the role conflict is handled will have an impact on how closely the service delivered matches the service specified. The primary conflict faced by service contact personnel is between the expectations of customers and the expectations of management. This conflict is increased when the employees are not given flexibility to meet the needs of customers.

The role conflict can be reduced by allowing service contract personnel adequate flexibility to meet customer needs. The employees need to have some control over the service encounter. Reducing the amount of conflict faced by the service employees is the responsibility of management. Not only does reducing role conflict aid service employers in meeting the needs of customers but it will increase job satisfaction, job morale, and length of employment.

Reducing role ambiguity is another strategy in reducing the size of gap-3. As role

ambiguity increases, role conflict increases and job satisfaction decreases. If the employees lack an understanding of what is supposed to be done, it becomes difficult for them to perform the necessary job specifications.

Management assumes employees understand their job but this is not always the case. In fact, many times service contact personnel do not have a clear understanding of goals and expectations. To reduce role ambiguity, service firms must do the following:

1. Provide frequent and clear downward communications from management on what is expected and how the service is to be performed.
2. Provide employees with constructive feedback to help them understand how the service is to be performed and what management expects.
3. Provide employees with product and service knowledge so they can perform their jobs better.
4. Train and retrain employees in the proper method of performing the service.
5. Train service contact personnel to communicate effectively with customers, with their supervisors, and with other customers.

Gap—4 (The Communication Gap)

Gap—4 is the difference between the service delivered to customers and the external communications about the service. Promises are made to consumers by a firm's promotional
efforts in the form of sales promotions, sales staff and advertising. These promises may be explicitly stated or they may be implied. If the firm does not provide the service that is promised, there is a gap between what customers expected and the service received. External communicators are essentially promises the firm makes to its customers. When the communications gap is wide, the firm has broken its promises, resulting in a lack of future customer trust.

Factors Influencing the Communications Gap (Gap—4)

As consumer expectations for a service increase, the probability of patronizing the firm will also increase. To increase patronage, firms are tempted to make promises that may
be difficult or even impossible to deliver.

The communications gap is influenced primarily by two factors. The first, the propensity of the firm to **over promise** often occurs in highly competitive business environments as firms try to outdo one another in the name of recruiting new customers. The second factor pertains to the flow of **Horizontal communication within the firm**. Communications are developed at the firm's headquarters without conferring with service firms in the field. In some instances, new service programmes are announced to the public by corporate headquarters before the local service firms are aware that the new programs exist. A lack of horizontal communication places an unsuspecting service provider
in an awkward position when a customer requests the service promised and the provider has no idea what the customer is talking about.

Strategies for Reducing the Communications Gap (Gap-4)

By addressing two important issues namely, the horizontal communications and propensity to over promise the service firms can reduce the size of gap-4. Service contact people should have input in the firm's advertising and promotional plans. This input will ensure that messages conveyed to the prospective customers can e

operationally performed. The reverse is also true; service personnel should be informed prior to an advertising or promotional campaign. Knowing what customers will be told about the service will help service staff perform the correct service.

In service firms with field sales representative, there must be communication between the salespeople and the personnel performing the service. Sales people often make

promises to prospective customers to gain contracts. If promises are made, the operations department needs to be aware of it so they can ensure the promises will be delivered. With a pressure to achieve greater profits or to meet competitive claims the tendency to over promise increases. In both cases, severe damage to the firm's image will occur since it is unlikely the firm can perform the service as promised.

Prescriptions for Closing Service Gaps:

Tools for analyzing and Addressing the Service Quality Issues

The following important tools are used to determine the root cause of specific service quality problems.

1. Root Cause Analysis

The Fishbone diagram has been developed by Japanese quality expert Kaoru Ishikawa as a tool to address the problem of service quality, wherein groups of managers and staff brainstorm all the possible reasons that might cause a specific quality problem. The resulting

factors are categorized into five groups such as, equipment, people, material, procedures and others on a cause and effect chart which is popularly known as fish bone diagram because of its shape. This, technique has been used for many years in manufacturing and more recently also in services.

To sharpen the value of the analysis for use in service organizations an extended frame work with eight groups has been adopted. "People" has been divided in to "Frontstage

personnel" and "Back-stage personnel" to highlight the fact that front-stage service problems are often experienced directly by customers, whereas back stage failures tend to show up more obliquely through a ripple effect.

"Procedures" has been divided into "Information" recognizing that many service problems result from information failures especially failures by front-stage staff to tell customers what to do and when. Finally, there is a new group called "Customers". In highcontact

services, customers are involved in front stage operations. If they do not play their own roles correctly, customers may reduce service productivity and cause quality problems

for themselves and other customers.

2. Pareto Analysis

The Italian economist who has developed a tool which seeks to identify the major causes of observed out comes is named as "Pareto analysis". This analysis underlies the rule 80/20, because it often reveals that around 80 percent of the value of one variable, for example, number of service failures, is accounted for by only 20 percent of the causal variable i.e. number of possible causes.

Combining the fishbone diagram and Pareto analysis serves to highlight the main causes of service failure.

3. Blue Printing

A well structured blue print is a powerful tool for identifying points of failure. It enables us to visualize the process of service delivery by depicting the sequence of frontstage
interactions that customers experience as they encounter service providers, facilities & equipment, which are hidden from the customers are not part of their service experience. Blue prints can be used to identify potential fail points where failures are most likely to happen. Blue prints help us to understand how failures at one point may have a ripple effect
latter in the process. Using frequency counts, managers can identify the specific types of failures that happen most frequently and thus need immediate attention. One desirable solution is to design fail points out of the system. In case of failures that cannot easily be designed out of a process or are not easily prevented, solutions may concentrate on development of contingency plans and service recovery guidelines.

It is very relevant to know on several formal quality programs namely, the Total Quality Management, ISO9000, Six Sigma and the Malcom-Baldrige Model, as the whole thinking, tools and concepts of Service quality originates from such quality programs. Therefore, an attempt has been made to describe each one briefly hereunder.

Total Quality Management

Total Quality Management, concepts originally developed in Japan, are widely used in manufacturing and more recently have also been used in service firms. Some concepts and tools of TQM can be directly applied to services. Control charts, flowcharts. Fishbone diagram and such other TQM tools are being used by service firms with great results for monitoring service quality and determining the root causes of specific problems.

Twelve critical dimensions have been identified for the successful implementation of TQM in a service context. They are:

1. Top-management commitment and visionary leadership,
2. Human resource management,
3. Technical system, including service process design and process management,
4. Information and analysis system,
5. Benchmarking,
6. Continuous improvement,
7. Customer focus,
8. Employee satisfaction,
9. Union intervention and employee relations,
10. Social responsibility,
11. Servicescapes, and
12. Service culture.

1SO 9000 Certification

More than 90 countries are members of the International Organization for Standardization (ISO) based in Geneva, Switzerland. The ISO promotes standardization and quality to facilitate international trade. ISO 9000 comprises requirements, definitions, guidelines, and related standards to provide an independent assessment and certification of a firm's quality management system. The official ISO 9000 definition of quality is: "The totality of features and characteristics of a product or service that bear on its ability to satisfy a stated or implied need. Simply stated, quality is about meeting or exceeding your

customer's needs and requirements." To ensure quality, ISO 9000 used many TQM tools and
routinizes their use in participating firms.

As with other quality initiatives, such as TQM and Six Sigma, service firms were late in adopting the ISO 9000 standards, and about two-thirds of the 510, 616 organizations that had been ISO 9000 certified by the end of 2001 were in manufacturing industries. Major Service sectors that have adopted ISO 9000 certification include wholesale and retail firms, IT service providers, health care providers, consultancy firms, and educational institutions. By adopting ISO 9000 standards, service firms, especially small ones, can not only ensure that their services conform to customer expectations but also achieve improvements in internal productivity.

Malcolm-Baldrige Model Applied to Services

The Malcolm-Baldrige National Quality Award (MBNQA) was developed by the National Institute of Standards and Technology (NIST) with the goal of promoting best practices in quality management. The Baldrige Model assesses firms on seven areas:

1. Leadership commitment to a service quality culture;
2. Planning priorities fro improvement, including service standards, performance targets, and measurement of customer satisfaction, defects, cycle time, and productivity;
3. Information and analysis that will help the organization to collect, measure, analyze, and report strategic and operational indicators;
4. Human resources management that enables the firm to deliver service excellence, ranging from hiring the right people to involvement, empowerment, and motivation;
5. Process management, including monitoring, continuous improvement, and process redesign;
6. Customer and market focus that allows the firm to determine customer requirement and expectations; and
7. Business results.

Six-Sigma Applied to Service Organizations

The Six-Sigma approach was developed by Motorola engineers in the mid-1980s to address the issue of increasing numbers of complaints from its field sales force regarding warranty claims. The program was soon adopted by other manufacturing firms to reduce defects in a variety of areas.

Subsequently, service firms embraced various Six-Sigma strategies to reduce defects, reduce cycle times, and improve productivity. Statistically, six sigma means achieving a quality level of only 3.4 defects per million opportunities (DPMO).

Over time, Six Sigma has evolved from a defect-reduction approach to an overall business-improvement approach. As defined by Peter Pande, Robert Neuman, and Ronald Cavanagh: "Six Sigma is a comprehensive and flexible system for achieving, sustaining and maximizing business success. Six Sigma is uniquely driven by close understanding of customer needs, disciplined use of facts, data and statistical analysis, and diligent attention to managing, improving, and reinventing business processes".

Process improvement and process design/redesign are the two strategies forming the cornerstone of the Six Sigma approach. Process-improvement strategies aim at identifying and eliminating the root causes of service delivery problems and thereby improving service

quality. Process design/redesign strategies act as a supplementary strategy to improvement
strategy. If a root cause cannot be identified or effectively eliminated with in the existing
processes, either new processes are designed or existing processes are redesigned to fully or
partially address the problem.

The most popular Six Sigma improvement model used for analyzing and improving
business processes is the DMAIC model. DMAIC stands for the following measures:

➢ Define the opportunities

➢ Measure Key steps/inputs

➢ Analyze to identify root causes

➢ Improve performance

➢ Control to maintain performance

Self Assessment Questions

1. What are the underlying themes of service quality? Suggest illustrations of each theme.

2. Define the five dimensions of service quality. Give an example of each dimension.

3. Explain how a manager might use the conceptual model of service quality to improve the quality of his or her own firm

4. What factors contribute to the size of the knowledge gap?

5. How does the communication gap relate to success in e-business?

6. Develop specifications for the role of a "Good Student.

7. What are the criticisms of SERVQUAL? What are its developer's responses to these criticisms?

8. You have been hired by a firm to develop the firm's service quality information system. What are the components of this system?

9. Explain the SERVQUAL model. How is it used by services marketers?

10. Identify the potential problems with SERVQUAL and the use of the gap theory methodology for measuring service quality. Discuss the precautions that should be taken to reduce these problems.

11. Identify the two types of performance measures that can be used to measure service quality. Cite examples of each type.

12. Identify the gaps in the evaluation of service quality. Identify the causes of each gap and the marketing strategies firms can use to reduce the size of each gap.

13. What are the main tools service firms can use to analyze and address service quality problems?

14. How do such concepts as TQM, ISO9000, Malcolm-Baldrige approach, and Six Sigma relate to managing and improving productivity and service quality?

15. Review the five dimensions of service quality. What do they mean in the context of (a) an Industrial repair shop, (b) a retail bank, (c) an accounting firm?

16. In what ways can you, as a consumer, help to improve quality for at least five service organizations that you patronize? What distinctive characteristics of each service make some of these actions possible?

17. If you were the manager of a service organization and wanted to apply the gaps model to improve service, which gap would you start wish? Why? In what order

would you proceed to close the gaps?

18. Which of the four gaps do you believe is hardest to close? Why?

19. Choose an organization to interview, and use the integrated gaps model of service quality as a framework. Ask the manager whether the organization suffers from any of the factors listed in the figures in this chapter.

20. What evidence do you see of organizations implementing quality programmes and continually improving service quality? How do you measure service quality?