

# Services Management

## DMGT522



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# **SERVICES MANAGEMENT**

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**EXCEL BOOKS PRIVATE LIMITED**  
A-45, Naraina, Phase-I,  
New Delhi-110028  
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Lovely Professional University  
Phagwara

# SYLLABUS

## Services Management

### Objectives:

- This course guides students confronting operational issues in service management, whether from a general management perspective or a specialist's perspective.
- It also exposes the student to the different measures and parameters which can improve the effectiveness of service.

S. No.	Description
1.	Service Operations Management, the Service Concept, Importance of Services in the Economy, Nature/ Characteristics of Services
2.	Service Strategy and Market Positioning, Services Planning
3.	Delivering Services on the Web, Role of Internet in Services, Cost Drivers, Internet Service Design
4.	New Service Development and Process Design, Innovation, Design and Tools
5.	The Service Encounter, Service Experiences, Creation and Evaluation
6.	Service Quality and Customer Loyalty
7.	Creating a Service Culture
8.	Performance Measurement in Services
9.	Service Process Analysis
10.	Yield Management and Capacity Management in Services



## CONTENTS

<b>Unit 1:</b>	Service Operation Management	1
<b>Unit 2:</b>	Emergence of the Services Economy	27
<b>Unit 3:</b>	Nature/Characteristics of Services	63
<b>Unit 4:</b>	Service Strategies	85
<b>Unit 5:</b>	Market Positioning	110
<b>Unit 6:</b>	Service Planning	125
<b>Unit 7:</b>	Delivering Services on the Web	144
<b>Unit 8:</b>	New Service Development and Process Design	172
<b>Unit 9:</b>	The Service Encounter	188
<b>Unit 10:</b>	Service Quality	204
<b>Unit 11:</b>	Customer Loyalty	228
<b>Unit 12:</b>	Creating a Service Culture	252
<b>Unit 13:</b>	Performance Measurement in Services	264
<b>Unit 14:</b>	Yield Management in Services	280



## **Unit 1: Service Operation Management**

Notes

### **CONTENTS**

Objectives

Introduction

- 1.1 Service Operation Management
- 1.2 A Service Operations Management Agenda
- 1.3 Paradigms in Service Marketing
- 1.4 Summary
- 1.5 Keywords
- 1.6 Review Questions
- 1.7 Further Readings

### **Objectives**

After studying this unit, you will be able to:

- Discuss about the concept of service operation management
- Describe the concept of service encounter
- Define the paradigm of service marketing

### **Introduction**

As India moves increasingly toward a services economy, marketers need to know more about marketing service products. On a simplistic note, one can say that services are activities or benefits that one party can offer to another that are essentially intangible and do not result in the ownership of anything. Thus we see how services are different from goods.

During the past decade services have increasingly assumed an important role in the Indian economy. Ever since this trend was set in the nineties, services have gained dominance. The competition, simultaneously, in service organisations, is becoming intense and severe. As a result these organisations have to have a more professional approach to managing their businesses. Perhaps it is in this context that the role of marketing is gaining importance in service organisations. In this unit, you will be introduced to the concept of services.

Marketable products can be broadly classified as tangible goods and intangible service. All of us use or consume tangible goods like food products, vegetables, oils, television, fan, refrigerator, etc. day in and day out. Similarly, we consume services like transportation, health care, education, telecommunication, entertainment, etc. Services in fact became a vital part in the lifestyles of people around the globe and many say that services are changing the lifestyle and quality of life. Services are integral part of every economy in the world. It stands along with agriculture and industry as one of the major components of an economy.

Service sector has registered substantial growth in all the countries during the last three decades. This sector overpowered agriculture and industry and occupied significantly dominant position in the economies of all the developed countries and many developing countries. The share of services sector in the Gross Domestic Profit (GDP) of a country is treated as a benchmark to designate an economy as service economy. An economy is called service economy when the contribution of the service sector to the GDP of the nation is more than 50 per cent. United States

**Notes**

of America (USA) was the first economy declared as service economy way back in 1948. Most of the economies in the world now became service economies. India became service economy in the year 2000-01.

To understand the concept of services better let us analyse the following definitions:

**The American Marketing Association (1960):** Services are “activities, benefits or satisfactions which are offered for sale or provided in connection with the sale of goods.”

This definition provides limited view of services. However, this was the first major attempt to identify services differently in valuing the output of a society. The definition does to provide or valuing services involved in producing the tangible goods.

**William L. Stanton (1974):** Services are “separately identifiable, intangible activities which provide want satisfaction when marketed to consumers and/or industrial users and which are not necessarily tied to the sale of a product or another service”. This definition focuses upon several issues for recognition. They are:

1. Services are those activities that are identifiable separately.
2. Services are intangibles that provide want satisfaction to consumers.
3. Services are marketed directly to consumers and also to the industrial users.
4. Services may or may not be tied with the sale of goods.
5. A service may be or may not be tied with the sale of another service.

**Philip Kotler and Bloom (1984):** Service is “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.” This definition more or less follows the earlier ones. The focus was given to the absence of ownership as a special feature of services which has significantly business implications.

**Christian Gronroos (1990):** Service is “an activity or series of activity or series of activities of more or less intangible nature that normally, not necessarily take place in interacting between the customer and service employee and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.” This is the definition in which an attempt was made to include all important issues relating to services management and marketing.

**Zeithmal VA and Mary Jo Bitner (1996):** “Services are deeds, processes and performances.” Although it seems that the definition is more precise, it provides marketing orientation to the services concept. It gives an understanding that the consumer is interested in deeds, processes and performances in perceiving the value of the service.

**Christopher Lovelock:** He described services through two different approaches. A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance essentially intangible and does not normally result in ownership of any of the factors of production. Services are economic activities that create value and provide benefits from customers at specific times and places as a result of bridging about a desired change in – or on behalf of – the recipient of the service. The definition given by marketing experts clearly establishes the scope of services. The scope of services marketing includes marketed and marketable services. The shortest definition to services marketing is “meeting service needs of the consumers at a profit”.

## 1.1 Service Operation Management

Notes

The service movement was driven, in part, by a realisation that classes were filled with students who would be, or were, involved in non-manufacturing tasks. There was some disillusion felt with the existing operations management material, by both the students and by academics. Economic batch quantities, line balancing and stock control are just a few of the topics widely taught then which bore little relation to the key issues faced by managers running service operations. That is not to say that these tools and techniques were of no value, but customer service, service quality and service design were central issues facing many service operations managers, yet there were no tools or techniques to help them in these matters.

The need for service-based material was also timely. It matched the emerging realization of the importance of the customer and a more customer-oriented view of operations. This was a significant shift away from the more internally-focused efficiency view of operations management. It also fitted with a growing “strategic” trend in operations. This questioned the traditional reactive role of operations and attempted to make the subject more market-oriented by understanding how operations could not only support but also help develop a strategic advantage (see for example Hayes and Wheelwright, 1984; Hill, 1985, 1989; Skinner, 1974, 1985).

Service operations have great appeal, and they are all around us. There is a plethora of examples and experiences and, indeed, research data that can be gleaned from everyday life: service operations are all-pervasive. They are therefore a normal part of our students’ lives. They can easily relate to the problems of scheduling hospital beds, the layout of a multiplex cinema or the quality of a retail encounter. Although undoubtedly important, car factories, paper mills and plastic coating lines can seem remote from many people’s lives. Furthermore, each one of us is almost constantly playing out some role or other within a service operation. As students sit in a lecture they are playing a part in a service experience, just as we are delivering, or rather orchestrating, that service. As they go to the library, or to eat, or to socialize, they are having interactive service experiences. Service “factories” are everywhere; “The mall is my factory” is the title of a reflective piece on service operations by Chase (1996).

### Self Assessment

State True or False:

1. Services are those activities that are not identifiable separately.
2. Services are intangibles that provide want satisfaction to consumers.
3. Services are marked indirectly to consumers and also to the industrial users.
4. Services may or may not be tied with the sale of goods.
5. A service may be or may not be tied with the sale of another service.



*Did u know?* “Service” captured the interest and imagination of Operations Management (OM) academics in the 1980s?

Operations academics, just like operations practitioners, tend to be enthusiasts. On plant tours, students experience their teacher’s fascination and insights into the processes and the systems and procedures that support them. Student feedback lays testimony to their enthusiasm, understanding and fascination with all things operational. Service operations are even more compelling. The full title of Chase’s paper is “The mall is my factory: reflections of a service

Notes

junkie”. In it he provides some tell-tale signs of the service operations “junkie” which might sound uncomfortably familiar to many service operations academics:

- You ask the resort hotel manager if you could peek at the reservation system while you are on vacation rather than spending an afternoon on the beach.
- You go out of your way to visit theme parks in Korea just to benchmark them against Disney land.
- You are more interested in the planes and taxis you took to get to the factory tour than you are in the factory.
- You provide unsolicited feedback to your dentist on how the scheduling and appointments system could be improved.
- A couple more are added here:
  - ❖ Your partner is reluctant to be taken to a restaurant to celebrate your wedding anniversary in case something goes wrong.
  - ❖ Your children will only go with you to the theme park if you promise not to debrief them on the way home.

This growing and compelling interest in service was happening in many parts of the world and in different functional areas (Brown et al., 1994; Gronroos, 1994; Johnston, 1994; Schneider, 1994). In marketing, accounting and HRM for example, academics were waking up to their service-based students. There was growing concern about the product-based nature of their material. Marketing seemed preoccupied with the marketing of white goods. Accountancy academics used examples which were based around an imaginary product, the “widget”. Ironically, this has become the accepted name for a beer can insert which forces gas into the beer when the can is opened, in order to provide a creamy head. (No doubt the majority of OM academics will have opened up a can to have a look!) Thus the service management movement was born in many different disciplines by people united by a shared enthusiasm and interest for all things intangible.

- From these early beginnings, a large-scale, worldwide movement gained pace and membership. Over the last ten to 20 years this has had a profound effect on research and teaching. The service operations movement, like the service marketing movement, has been characterised by a number of stages; an initial realisation of the difference between goods and service, the development of conceptual frameworks and the empirical testing of these frameworks. We are now entering a fourth stage concerned with the application of the tools and frameworks to improve service management. As the service movement has grown, with increasing overlap between the subjects of operations, marketing and HRM for example, this fourth stage is also characterised by a “return to roots”, a realisation that we might have lost, or inadvertently ignored, the strength of our core disciplines and the need to bring a sense of academic rigor and depth to the developing subject of service management.
- The next sections briefly chart the development of operations through the first three stages and lay out the challenges as we enter this fourth stage in the development of service operations management. Several areas for future research are discussed.



*Note* Service management is integrated into supply chain management as the intersection between actual sales and the customers.

## Stage one — Service Awakening

## Notes

- Before 1980, business academics were primarily concerned with the production, marketing and management of physical goods. By 1955 the service sector accounted for just over 50 per cent of the UK's gross domestic product, overtaking the product-based sectors. Yet it took another 20 years before the operations management academics of the day started to apply their knowledge and skills to service operations. Operations management in 1970 was known as production management (see for example Chase and Aquilano, 1973). It had developed out of an even more focused view of operations, factory management (see for example Lockyer, 1962). Factory management was the name given to the search for efficiency in the post-industrial revolution era based upon Frederick Taylor's philosophy of scientific management (1911). Production management was concerned with applying method study techniques, production planning and control, capacity management and materials management, for example in production settings, with examples coming from a wider base than "pure" manufacturing and including examples such as distribution, transportation, hospitals, libraries and publishers (see for example Adam and Ebert, 1982; Evans *et al.*, 1984; Stevenson, 1982; Wild, 1980).



Caselet

**Case: Mass Market Restaurateurs — The Shettys**

The Shettys – a certain martial race community from Karnataka, like the Coorgis – are a case in point. They run the ubiquitous restaurants in Mumbai offering all things to all – South Indian and North Indian fare – yet, the food is rarely authentic. The sambar, a vegetable-cereal gruel, sour in taste, is not what it tastes back at home, the newly arrived South Indian in Mumbai discovers to his astonishment. It is actually sweet! The reason is classic marketing oeuvre: Gujaratis are the moneyed people in Mumbai, mostly in business and they prefer their dishes sweet; like the Rajasthanis, they perceive that anything that is sour must be stale! So the Shettys, despite being South Indian themselves, have tailored their offerings to the preferences of a certain large segment of the market and successfully established themselves. These customers, the Shettys have analysed, have the capacity to pay, are in the majority, and their preferences are governed by their cultural predispositions. It really didn't matter that for a connoisseur of authentic South Indian or Punjabi food that these restaurants were frustrating experiences. For the majority of the customers it was simply fine. Curiously, the Shettys could never replicate their Mumbai success anywhere else. One reason could be that the discerning diner in North and the East already had recourse to authentic Punjabi, Bengali, Chinese or South-Indian cuisines (availability). Another could be that no one community's preference guided the cuisine taste and design. So was the story in the South. Similarly, people in the North – and Delhi offers a good representative study – prefer their chicken dishes with bones; diners in Mumbai don't, probably because it is timesaving – a concept so dear to them.

**Self Assessment**

Fill in the blanks:

6. Before ....., business academics were primarily concerned with the production, marketing and management of physical goods.
7. By ..... the service sector accounted for just over 50 per cent of the UK's gross domestic product, overtaking the product-based sectors.



**Notes**

8. .... batch quantities, line balancing and stock control are just a few of the topics widely taught then which bore little relation to the key issues faced by managers running service operations.

In the 1970s there was an emerging recognition of service operations and the first two texts to place some emphasis on the service sector were Johnson *et al.* and Buffa. Both books were entitled *Operations Management* “to reflect the growing emphasis on the breadth of application of production management concepts and techniques – non-manufacturing and service industries as well as manufacturing”.

Service operations was a little slower off the mark, as service operations management was “essentially Operations Research (OR) applied to service settings” (Chase, 1996). A major breakthrough came in 1976 with the publication of Earl Sasser’s article “Match supply and demand in service industries” in the *Harvard Business Review*, followed two years later by the pioneering textbook *Management of Service Operations* (Sasser *et al.*, 1978) containing what are now regarded as classic cases and issues. Dick Chase also wrote a service article for the *HBR* “Where does the customer fit in a service operation?” (1978). He challenged the operations management community to consider two types of operations; the traditional back office factory and the customer-facing, customer-contact front office. Chase and Sasser *et al.* provided academic credibility and authority to the study of customer-based operations. Other papers with distinct operations themes included “Production-line approach to service” (Levitt, 1972), “Quality control in a service business” (Hostage, 1975), “The new back office focuses on customer service”) and “Marketing’s potential for improving productivity in service industries”. Levitt’s paper is still proving a rich source of inspiration for recent papers.

In essence, stage one (referred to by Brown *et al.* (1994) using the analogy of the development of the human species) was the “crawling out” stage and was characterized by recognition of the existence of service. The nature of academic work was primarily descriptive and focused on the difference between goods and services. Chase described this as the “classification era”. Although Levitt *et al.* and colleagues had started the service operations revolution, service operations was still very wedded to its factory roots. Furthermore, whilst there was awareness of some of the efforts in other functions, the concept of a cross-functional subject of service management was some way off. Research was undertaken in subject areas with little or no cross-fertilization. Table 1.1 summarizes the characteristics of this stage in the development of service operations management.

**Stage two — Breaking Free from Product-based Roots**

The period between 1980 and 1985 was a time of “high interest and enthusiasm” in services. It was accepted that services were different from goods (though that debate rumbled. During this “scurrying about” period, many substantive issues were debated. The work was principally conceptual in nature and was characterised by the development of frameworks to help understand the characteristics of service and service management. Service operations academics continued their work on “customer operations”. This focus on the customer and the service encounter was growing apace in the other functions. Publications on this topic included “The critical incident as a technique for analysing the service encounter”, “Boundary spanning role employees and the service encounter: some guidelines for management research” and “Perceived control and the service encounter”.

Operations academics were also breaking ground with new perspectives on traditional themes. Wyckoff (1984), for example, wrote what might be considered an early TQM paper “New tools for achieving service quality”. In this period the first two service operations management texts were written.

Table 1.1: Stage one — Service Awakening

Stage	Nature of Research	Focus of Research	Outcomes	Operations Management Issues
ONE	Descriptive	Goods v/s Services	services are different	growing awareness of the importance of service, customer operations and customer contact

We also witnessed the first “challenge” papers on service operations research; “The service sector: challenges and imperatives for research in operations management” and “Service operations management: research and application”.

The main characteristic of stage two was that the study of service appeared to have broken free from its product-based roots. There was also recognition of, and reference to, the research undertaken in the other disciplines undertaking service research.

The epitome of this era was the well-regarded paper by Parasuraman, “A conceptual model of service quality and its implications for future research”. This was a major step in the development of the cross-functional subject of service management. Service quality was a topic which was seen as important by all of the different functional areas and where they could all make a contribution. This landmark article (and subsequent studies by the authors) not only stimulated a huge amount of activity in the marketing area but threw down the gauntlet to the operations area, as it was realized that other functional areas had important things to say about a topic which had traditionally been seen as “operations”. It was also a different approach to quality, in stark contrast to the Statistical Process Control (SPC) approach. This was also the case when Shostack’s article “Designing services that deliver” was seized upon by marketers as they moved into process mapping, previously a cornerstone of operations management.

Interest in internally-focused service operations did not cease, however.

There was also recognition of cross-functional issues in papers such as “The employee as customer” and in a text by Eiglier and Langeard *Servuction* which combined aspects of marketing and production, though the text is subtitled “*Le marketing des services*”. We also witnessed the production of what might be regarded as the first service management text. The service management area was also gaining some degree of respectability with the publication of two journals; *The Service Industries Journal* in 1980 and *the Journal of Professional Services Marketing* in 1985.

For operations this was a period when the nature of service and service operations was classified as a prelude to the development of tools and concepts. The dimensions included customer contact time, degree of customisation, the amount of judgment exercised by front office staff, whether the value was added in the front or back office, the operation’s product or process focus (Johnston and Morris, 1985). These discussions resulted in the now widely-accepted categorisation of service operations; mass, professional and service shop.

Notes

The key characteristics of stage two are summarized in Table 1.2.

**Table 1.2: Characteristics of Stages**

Stage	Nature of research	Focus of research	Outcomes	Operations management issues
ONE	descriptive	goods v/s services	services are different	growing awareness of the importance of service, customer operations and customer contact
TWO	conceptual	characteristics of service and service management	conceptual frameworks	challenge to existing operations paradigms and the development of "customer operations"

**Stage Three — The Service Management Era**

The third stage in the development of the service movement, which Brown described as the “walking erect” stage, has been characterised by the cross-disciplinary nature of service research; a coming together of disciplines. Marketing, operations and HRM, in particular, brought together their various strengths and perspectives to issues of common concern. This period, from around 1985 to 1995, was the era of service management (as distinct from service marketing or service operations); a subject whose strength lies in its cross-disciplinary nature and approaches. Three interdisciplinary conferences began, the International Research Seminar, hosted by Eric Langeard and Pierre Eiglier from the University Aix-Marseilles; the Quality in Services (QUIS), alternating between Sweden and USA; and the Frontiers in Service Conference at Vanderbilt, USA.

The research undertaken in this stage was predominantly concerned with the empirical testing of ideas and frameworks resulting in underpinned and tested models. Conceptual frameworks and ideas continued to emerge to form the basis for fresh empirical work. This period was certainly an important milestone in the development of the subject. Chase referred to this stage as the “theory testing/empirical era” where we “have been moving from developing conceptual frameworks to refining their dimensions and validating them empirically”. Industry-focused studies, survey research and case studies seem to have dominated this stage of development.

**Stage Four — Return to Roots?**

My belief is that we have now entered a fourth stage: one that could be considered the final step in the creation of a “mature” subject which has been in evidence since 1995: the intention and ability to be prescriptive (Johnston, 1996). A stage when much (but not necessarily all) of the material can be taken and applied, and where the outcome of its application can be predicted (see, for example, Berry, 1995; Heskett *et al.*, 1997; Rust and Oliver, 1994). Collier (1994), for example, has been developing models to show the relationship between perceived service quality and operational performance. Heskett *et al.* (1997), Rust and Oliver (1994) and Voss and Johnston (1995) have been undertaking empirical work to understand the links between operations drivers, for example, quality, staff satisfaction, internal quality, and outcomes such as profit and customer satisfaction. It is this type of work that seems set to continue for some years to come.

However, a new significant wind of change is that the previous trend towards cross-functional work seems in reverse. We are witnessing some tensions between the functions. Indeed it is suggested that rather than seeing a continuance of the overlapping of the areas of marketing, operations and HRM for example, we are witnessing their moving apart from each other. This

change is driven by a basic desire to re-establish the service material within the core disciplines. It appears that we have forgotten, or mislaid, our established roots and academics have focused on material and approaches depicted in the circles in the last column of Table 1.4. We seem to have been swept along on the tide of interest in service focused predominantly from a customer perspective. Whilst there is nothing unhealthy, or indeed inappropriate, in this, we seem to have ignored the strength that our core discipline has to offer. In service quality, for example, we have focused on customer-based notions of service quality but appear to have ignored quality of conformance and the delivery of customer-based quality, surely key issues for operations managers and academics.

Notes

Table 1.3: Stage Three – The Service Management Era

Stage	Nature of research	Focus of research	Outcomes	Operations management issues
ONE	Descriptive	Goods v/s services	services are different	Growing awareness of the importance of service, customer operations and customer contact
TWO	Conceptual	characteristics of service and service management	conceptual frameworks	challenge to existing operations paradigms and the development of "customer operations"
THREE	Empirical	development and testing of frameworks	large amount of service material based on new cross- functionally derived models	development of service processes, quality, failure, design and technology with a view that service could contribute to manufacturing

Table 1.4: Stage Four – Return to Roots?

Stage	Nature of research	Focus of research	Outcomes	Operations management issues
ONE	Descriptive	goods v/s services	Services are different	Growing awareness of the importance of service, customer service, and customer contact
TWO	Conceptual	characteristics of service and service management	conceptual frameworks	challenge to existing operations paradigms and the development of "customer operations"
THREE	Empirical	development and testing of frameworks	large amount of service material based on new cross- functionally derived models	development of service processes, quality, failure, design and technology with a view that service could contribute to manufacturing
FOUR	Applied	prescription	linking operations drivers to outcomes	the return to roots – the need to re-focus service operations towards traditional operational issues and approaches

**Notes**

In service design, we seem to have followed the blueprinting movement but we appear to have ignored the process of design in favour of this descriptive activity and the relationship between important and often ignored, back-office activities in favour of customer-facing processes.

## **1.2 A Service Operations Management Agenda**

This growing awareness of the need to re-operationalise service management material has led to an attempt to develop an agenda. This section identifies some possible research issues and questions emphasizing the core operational issues.

### **1.2.1 Linking operational performance to business drivers**

Developing the work of Voss and Johnston, Roth and the pioneering work on the service profit chain by Heskett, there is growing awareness of the importance of linking business drivers such as leadership, customer orientation and more operational issues such as benchmarking, quality control and service design, with their impact on business performance. Although the work cited above has made significant inroads into this area, there is much more work to do. Indeed there is significant practitioner interest in this area, witnessed by the growing interest in the use of the Baldrige criteria and the UK/European Foundation for Quality Awards on this side of the Atlantic. Chase points out the important roles that operations can play in this movement: “service operations is the appropriate discipline to begin to move business from its current emphasis on reengineering to the next step — revenue enhancement” (Chase, 1996). Two key research questions are:

- (1) What are the most efficient operational profit levers and under what circumstances?
- (2) Can we map the relationships between the controllable and the outcome variables?

### **1.2.2 Performance Measurement and Operations Improvement**

Despite some major work in the performance measurement area, many organisations seem reluctant to critically review and develop their performance measurement systems. The balanced scorecard, although a major step forward for many organisations, has led to a degree of complacency once an organisation, and its SBUs, have found measures to fit all four boxes. (One organisation was pleased to have developed new measures including “number of staff training days” and “number of processes benchmarked” without any concern as to whether any improvements resulted from these activities):

- How can we develop frameworks to help organisations review the nature and effect of the performance measures used?
- In what situations are historical measures and targets appropriate and in what situations are externally based targets more appropriate?
- Do radical step change improvement programmes yield better or faster results than TQM type continuous change programmes?
- Does benchmarking yield the desired results or does it get caught up in interminable and unfruitful discussions about “apples and pears” or degenerate into “industrial tourism”?

### **1.2.3 Guarantees, Complaints and Service Recovery — Tools for Performance Improvement**

Much organisational practice in the area of complaints and recovery has regressed into mere marketing ploys. Complaints procedures in some organisations have become mechanisms to

pass on tokens or small pay-outs to disgruntled customers. Guarantees often seem little more than your statutory rights, or an “opportunity” to purchase insurance so that, if the product or service fails, the vendor is not troubled with the problem (and so is unaware of the in-built problems of their products or services). Service recovery appears to have become reactive, with staff carefully listening to, sympathizing with, and then paying off the customer but never sorting out the root problem:

- How can we link complaints and failures to organisational improvement?
- How can organisational learning develop from mistakes?
- How can organisations be proactive in finding and dealing with mistakes before their customers tell them (or more often don't tell them)?
- What are good service guarantees and how can they be operationalised?
- What evidence is there that complaints, guarantees or service recovery drive improvements within an organisation?
- How is learning best captured and applied?

### **1.2.4 People Management**

Despite some excellent additions to the literature in the FIRM area, operations academics need to retrace their roots and focus on the design of jobs. The problem is not knowing that customers expect empathy, reliability, assurance etc., but delivering it time after time, month after month, week after week, day after day, hour after hour. (A recent BBC documentary portrays a heterosexual male prostitute in Australia providing service to his clients, hour after hour, sometimes for a week at a time.) We need to understand how all employees can deliver constant and consistent high levels of service and how we can design jobs and motivate employees to do this:

- What are the key service operational competencies?
- How do we develop those competencies?
- How do operations managers go about maintaining the energy and commitment of front-line workers?
- How does one ensure that a constant level of service is provided?

### **1.2.5 Service Design**

The service design models used in the literature are strongly based upon product design processes, yet there is some evidence that product design processes are not used, or indeed applicable, in service situations. Do we understand how services are designed from conception to consumption and how existing product-based models can be applied?

- What is a service design?
- How is a service concept developed into a service?
- What is a service concept?
- What are the most effective methods of developing a service?
- What are good design tools and techniques?
- Seamless service is a great idea for a customer but how does one achieve this in most “silo-based” organisations?

**Notes**

- How can the World Wide Web be utilized to create new services, even virtual services and the use of virtual reality simulations in service (no, I don't have the prostitute in mind)?
- How do we capture the technological dimensions of the next century?

### **1.2.6 Service Technology**

There are a few documented examples of technological disasters, yet there are many more but less well-known, or documented, examples of technological successes. One reason for failure is that technology is often superimposed on inefficient, outdated operational systems, in the expectation that it will overcome inherent problems. Unfortunately there is only limited material in the service literature about the difficulties of implementing new technology, or indeed any categorization of the various types of technologies in use. It would also appear that managers seem to have a difficulty in assessing the "true" impact of new technology. Furthermore, investment in service technology does not appear to have significantly reduced costs for the provision of services. Brunsdon and Walley refer to this as the "productivity paradox":

- What are the categories of service technologies and their relative impact?
- What are the inherent difficulties in implementing new technology?
- What are the success factors?
- What is the relationship between investment in technology and cost reduction?

### **The Design of Internal Networks**

Gremler et al. define internal service encounters as the didactic interrelation between an internal customer and an internal service provider. The supply chain literature, however, has moved away from such simplistic relationships to the idea of networks of relationships. This network approach needs to underpin future research in the internal customer chain. Can notions of external quality and customer satisfaction be used with internal supply chains? Slack stated that internal customers cannot be treated in exactly the same way as external customers. External customers usually, though not always, operate in a free market. The internal customer is often a captive customer and so many of the current concepts of service quality and performance measurement from an external customer perspective (e.g. customer satisfaction) have found little credence in internal customer-supplier relationships. This seems to be changing as organisations are looking increasingly at contracting-out internal services:

- Can supply chain networks be implemented within organisations?
- How well does service quality translate to internal supply networks?
- What is the relationship between internal service quality and staff satisfaction and external quality and customer satisfaction?
- How can organisations cost and value internal services?

### **The Service Encounter**

The service encounter is the crux of service delivery, yet how much do we know about which are the right scripts, attitudes, behaviours to achieve the desired effect? How do we ensure that each encounter in a service process has the right cumulative effect on customers' overall perceived service quality:

- What are the "right" scripts for different types of service?
- Do we know how to design and control the series of encounters that comprise the service process?



## Managing Service Capacity

## Notes

Some work exists in the management of service capacity in terms of staff scheduling. Strategies for managing demand and supply in service operations have also been documented; however, there has been little advancement since the first paper by Sasser in 1976. Yet this is an area which is fundamental to the planning and control of service. Another issue, the subject of a preliminary investigation, is the relationship between capacity levels and the level of service quality delivered. Clark and James provide some conceptual models of intuitively-derived relationships between resource utilisation and service quality is it now possible to derive empirically these functions and assess strategies for effective resource utilisation linked to required quality levels:

- What are appropriate capacity strategies? How does customer contact relate to types of strategies?
- What is the relationship of capacity levels and capacity strategies to the level of service quality delivered, for example?
- How can organisations best manage their quality-capacity relationships?

Manufacturing, service and agriculture are the major economic activities in any country. In India, manufacturing and services together constitute nearly 75% of the GDP. Moreover, in recent years the growth in GDP is primarily due to the growth in these sectors of the economy. During the last ten years, the share of services in the GDP has grown steadily from about 40% to about 51%. The Union Government began taxing three services in 1994-95. This has grown steadily and as of 2004-05 the number of services taxed has gone up to 71.

All these indicate the growing importance of services in the Indian economy and the need to apply management practices to plan and control operations in the service sector. In addition to discussing the design and operational control of service operations, specific issues pertaining to certain sectors of the service industry are also addressed.



*Did u know?* Service organisations respond to the requirements of customers to satisfy some needs and leave certain experiences in the minds of the customer through a service delivery system?

### 1.3 Paradigms in Service Marketing

Services have increasingly assumed an important role in the economic development of many countries including India. Most countries in the western world have entered what is called a service economy or service society or about to do so. An economy is called a service economy when the contribution of the service sector to the GDP of the nation is more than 50%. USA was the first economy to declare as service economy way back in 1948 with about 53 percent contribution of service sector to the GDP of the nation. Almost all the developed countries and many developing countries are emerging as service economies. There is an argument that the statistics of service sector's contribution in many countries is a gross underestimation of the truth since services produced by manufacturers of goods in the industrial sector are not included. As such, there is large 'hidden service sector' which is not classified under service sector.

Services are becoming a critical source of wealth in many ways to the economies. Economies experienced increased in wealth and employment with the growth in service sector. While employment in manufacturing sector is receding year by year the employment in service sector is rising at a higher level. Even in times of economic recession unlike in manufacturing sector,

**Notes**

the service sector has kept employment up. Quinn and Gagnon identified substantial contributions of the service sector to the economy in other respects as well:

1. People value services at least as highly as manufactured goods. Services are not something one looks at after the good needs have been met.
2. The value added produced by service firms is very well comparable to, and even higher than, the value added produced by manufacturers of goods.
3. The service sector is at least as capital intensive as the goods sector, and many service industries have a high technology impact.
4. Service industries tend to be just as concentrated as manufacturing, and service firms tend to be sufficiently big in scale to be important and sophisticated buyers.
5. Service industries develop productivity increases that are big enough to support continuing real growth in per capita income.
6. The most traded services internationally are Tourism, Transportation, Financial services (Banking and Insurance) educational training, and business services.



*Note* Services are economic activities offered by one party to another.

### **1.3.1 Reasons for Growth of Service Sector**

The reasons for the growth of service sector can be broadly categorised into two. They are:

1. Growth in intermediate demand from firms.
2. Growth in final demand from customers.

#### **Growth in Intermediate Demand from Firms**

Manufacturing firms realised the importance of staff function when line managers sub-optimal performance in decision-making relating to operational activities as well as the growth of the business. The manufacturing firms started bundling with number of service functions like selling, marketing research advertising labour welfare, HRD, financial advisers, strategic advisers, etc. with the growth of competition, the pace of change in consumer exposure and expectations forced the organisations to look for specialised services. They started unbundling the organisations and tasking the services from outside where highly professional and specialised services are available at relatively low price. As a result large number of service organisations has come up throughout the world.

#### **Growth in Final Demand from Customers**

There is growth in direct demand from customers from a variety of services. The changes in society make the people to develop a different attitude toward life. The marginal utility from goods diminishes, at least in a relative sense, and services grow in importance. People spend more and more on services. The following are the reasons identified or the growth in demand for services directly from customers:

1. ***Increase in affluence:*** Majority population in the developed economies and significant groups in developing economies are becoming affluent year by year. The 250 million strong middle income households of India attracting many multinational companies to the country with their growing affluence to have a variety of products and services. The demand for personal services, travel, tourism, entertainment, clubs and he like greatly

depends upon the affluence of the society. If a traveller is tight with money, how will carry his luggage himself. If he has financial affluence he will engage a porter for the same job. The affluence reduces the scope of self-service and creates opportunities for many service people and organisations.

2. **More leisure time:** The tendency of the people throughout the world is to gain more leisure time so as to attend to their personal and family activities. There is a significant change in defining the holidays or leisure period even in semi-urban and rural pockets of India. Instead of eating stomachful with delicious food, resting on bed for extra hours, playing cards and chitchatting, the people are now spending time on education, training, skill development for themselves as well as for children, touring, entertainment; personal care, etc.
3. **Working women:** The percentage of women in employment is increasing year by year in many economies. They no longer can be viewed as just housewives and inferior to men. They proved beyond doubt in many areas that they are equal and in some areas more competent and suitable than men. The working women are burdened with household activities as well as office activities. They are looking for services that can reduce their burden significantly. As they belong to double income group, they have more affluence to spend on services. As a result the demand for crèches, baby sitting, household domestic help, health services, fitness services, special education services, etc. has gone up.
4. **Growth in DINKS population:** DINKS are double income group with no kids. It is not that the couple cannot have children due to physical problems. The couple do not try to have a children may be because of the reason that both are careerists. Generally they may postpone having children for the first few years of marriage, after that due to pressures in employment with possible promotions, transfers and time pressure. The postponement continues until they reach to the conclusion of not having children. In some societies where divorce rate is high, marriage is perceived as a short-term relationship. In such societies either the male or female prefer not to have the children whose future will be at stake when marriage becomes a failure. In many developed societies DINKS population is on the rise. The DINKS have greater affluence and no savages require for future generations. Hence they spend liberally on services.
5. **Greater life expectancy:** The economic prosperity and the increasing standard of living of the people have resulted in greater life expectancy. As a result, there is a significant growth in the old age population. If you take India as an example the population above the age of 60 years has increased from 14.13 million in 1981 to 54.69 million in 1991. It has reached 75.7 million by 2001. While the expected growth in 0-14, 15-34, 35-59 years of age groups is 6.26, 20.07 and 29.75%, respectively, the above 60 age group growth is about 38.42%. There would be greater demand for nursing homes and health care services with the increasing old age population.
6. **Greater complexity of products:** The rapid pace of change in technology offering more and more new products to the society. The human begins now are identifying a very large spectrum of needs compared to the earlier generations. The present generation is using number of products with technological complexities in day-to-day life. They need skilled specialists for maintenance of such complex products as computers, automobiles, television, kitchen appliances, etc. Therefore, the demand for such services is growing day-by-day.
7. **Greater complexity in life:** In the modern society the people are feeling that they are living ninety nine lives as they are required to play a number of roles in each day-to-day life. There is a demand for such service, which can share the burden or reduce the burden. As such there is an increased demand for income tax consultants. Legal consultants, counseling, employment services, labor supply services, baby care centers, etc.

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8. **Greater concern for resource scarcity and ecology:** For majority of the population financial resources are scarce or limited but they are desirous to have a number of services. Owning a tangible for various services require financial strength. On the other hand, many of them may not be usable to the optimum capacity by the individuals. Hence, there is a demand for leisure services such as car rentals, computer hardware rentals, accommodation, door-to-door service, etc. In the recent years many economies manifested their concern towards environment and ecological balance. Large numbers of public organisations were promoted by governments of various countries to protect the environment from pollution and other hazards and to maintain the ecology through conservation of forests, protection of animals, birds, insects and other important species. They have been using various media for campaigning and taking up several programs to make people participate in the process. The schemes like Van Mahotsav, water conservation, etc. are examples for this.
9. **Increasing number of new products:** The consumers are exposed to a wide variety of choice in the recent years. The span of life of products and services is reducing due to the entry of new or improved products at after pace. The consumer is unable to have a total comprehension before taking a purchase decision relating to a product or a service, as they are busy with a number of activities. As such consultancy services are enjoying increased demand. For example, if a person wants to invest in shares, the complex information inputs of the share market will certainly drive him to confusion and uncertainty. The broker or consultancy service facilitates the process to go smoothly.
10. **The new youth/young:** It is observed that the younger generation tends to use more and more services than the older generations. The older generation depends on self for a number of activities.

The younger generation could able to cope up with that peace of change only through consumption of number of services. For example, a graduate in computers can teach himself the new languages but it takes lot of time. By the time he develops expertise in that there is danger that the program may be outdated or may be lagging far behind his competitors. Therefore, they prefer to take training through institution to be competitive.

India has been pursuing a planned approach for achieving economic growth and development. The economic activities that were to be developed were categorised into three sectors, in the order of priority. They are primary sector, secondary sector and the tertiary sector. The primary sector includes agriculture, animal husbandry, fishing and forestry. These areas are considered fundamental and the foundation for further development of the economy. The secondary sector includes manufacturing industry and construction. The tertiary sector covers services, including distributor. The allotment of funds and the focus of development have been given to these three sectors in a phased manner. The first three Five Year Plans gave greater focus to the primary sector and the next two focused on the secondary sector. As a result the services sector started growing.

**Self Assessment**

Fill in the blanks:

9. .... firms realised the importance of staff function when line mangers sub optimal performance in decision-making relating to operational activities as well as the growth of the business.
10. India has been pursuing a ..... for achieving economic growth and development.
11. The ..... sector includes manufacturing industry and construction.

12. The ..... generation could able to cope up with that peace of change only through consumption of number of services.
13. The span of life of products and services is reducing due to the entry of ..... products at after pace.

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### 1.3.2 Growth of Service Sector in India

One of the key measurements of growth of the services sector is its contribution to the Gross Domestic Product (GDP) of the country. While considering services for this purpose, there are two important dimensions that need special attention. They are the hidden services and the services in the unorganised sector. Hidden services are the services that are used internally by the manufacturing organisations. The output value of such services becomes part of the output of the tangible goods. As such the value of such services are hidden and taken as the value of tangible goods for the purpose of ascertaining the GDP. There are large numbers of services that are not accounted for output assessment for the purpose of GDP calculation. Personal services, maid services and a host of professional services such as the barber, carpenter, washer man, goldsmith, priest, and nurse, in semi-urban and rural India have their roots going back several centuries. These services are predominant in almost all parts of the country, but a proper accounting system to assess the value of output is conspicuously absent.

Barring these two important dimensions, the service output is valued for the purpose of GDP. The share of the agricultural sector in the GDP of the country was 57.1 per cent in 1950-51, that is, in the beginning of the planned era. Services occupy second position with 28.6 per cent and the contribution of industry to the GDP was 14.3 per cent there has been a significant change in the proportions of these three sectors by the end of 2000-01. The share of agriculture has gone down to 24.7 percent, the services sector became the major contributor with 48.8 per cent share in the GDP, and the contribution of industry to the GDP was 26.4 per cent. The share of service sector is increasing year-by-year. In 2006-07, the shares of the three sectors are; Services 61.8 per cent, Industry 19.7 per cent and Agriculture 18.5 per cent.

### 1.3.3 Reasons for Growth of Services in India

Several developments in the economy and society are attributable for the growth and development of service sector in India. K. Rama Mohan Rao in his book on Services Marketing identified the following vital factors that contributed significantly for the growth of service sector in India:

- Economic Affluence
- Changing role of women
- Cultural changes
- IT Revolution
- Development of markets
- Unbundling Corporations
- Increased consciousness of healthcare
- Economic liberalisation
- Export potential
- Retail revolution

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- Knowledge Processed Outsourcing (KPO)
- Real estate and construction services

**Self Assessment**

Fill in the blanks:

14. Several developments in the economy and society are attributable for the growth and development of service sector in .....
15. One of the key measurements of growth of the ..... sector is its contribution to the Gross Domestic Product (GDP) of the country.



*Task* Services sector is playing the role of growth driver in many developed and developing economies. Discuss.



*Case Study*

**Case: Lakme Beauty Salon – Extending into Service Brand**



The *Lakme Beauty Salon* (LBS) was inspired by Lakme, the brand that has for 50 years now led the way in truly understanding the Indian woman. It is the classic example of an exercise in extending a product brand to a service brand. It seems not to have escaped the usual pangs of extensions, although it has clearly sought to exploit definite market opportunities. *Lever* had tasted success in its previous brand extension exercises: *Rexona*, *Lux* and *Liril* soaps to deodorants, with *Rexona* particularly performing exceptionally, capturing almost 70% of the organised market share (it has, by 2004, dropped to 50%). But this brand extension was different: the product offer (*Lakme* cosmetics and skin cares) of the mother brand possessed more tangible features than the extended service offer (LBS), which mostly promised experience.

Simone Tata, wife of the late Naval Tata, had promoted Lakme, a distinctive jewel from the House of Tatas. But as a perceived misfit to the new strategic blueprint for the group drawn by Ratan Tata, the Chairman of Tata Sons (the holding company), in the mid nineties, the cosmetic major was sold off to the FMCG major Hindustan Lever Limited (HLL).

HLL turned over a 'new leaf' in 2001 when it set up LBS under its beauty brand, Lakme. The idea was to offer a complete brand experience. Three years later, LBS contribute 11 per cent to the company's turnover, but only one per cent of Lakme product sales are through LBS outlets. LBS have not been a major success, since its branded service was often as uneven as the local beauty parlor. *But, can the effort be called a failure?*

**Performance:** Lakme Lever has 50 per cent share in cosmetics market and 22 per cent in skin care, aiming to have a larger pie of the ₹ 1,000 crore salon industries, which is

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growing at 20 per cent. With 150 salons, LBS would also enter relatively small towns, while adding new salons in metros like Delhi, Mumbai, Bangalore and Chennai.

### ***Lakme and Beauty Industry Performance***

The Indian cosmetics industry is in a state of flux. Even as the premium segment is getting crowded, the rural market is turning out to be the stronghold of smaller, regional players. Although stiff competition has emerged for Lakme Lever within the ₹ 250-crore color cosmetics market, it continues to lead. In the skincare market, estimated at ₹ 700 crore, Lakme's market share averages 7–8 per cent. (2003). Lakme Lever, which saw a 32 per cent growth in 2003–04, plans to concentrate on growing the salon business through its LBS, while consolidating its core business of color cosmetics and skin care.

### ***Lakme's Other Ventures***

*Lakme* has had a mixed bag of success whenever it made forays into areas other than its core cosmetics and skin care segments:

#### ***Fragrances***

Lakme had two fragrance brands, *Ivana* and *Shie*, which they withdrew some years ago. The fragrances market in India is too fragmented and has always had a strong presence of brands smuggled into the country and brought in through the grey market. Other Lever brands (as distinct from *Lakme's*) like *Rexona* and *Lux* have had more success in their extension exercises in deodorants. *Rexona*, in the early nineties, was more successful in the deo-stick segment and then in the deo-spray. *Lux* soon followed suit and, combined, have over 50 per cent of the deodorant market sewed up.

*Lakme* has no immediate plans to stage a re-entry in the fragrances sector in the immediate future under brand *Lakme*. The macro strategy is on rationalising the skincare and color cosmetics portfolio.

#### ***Hair Care***

HLL has several brands in the hair care segment. So there are no plans to extend the *Lakme* brand to hair care products such as shampoos and oils. The core thrust areas remain color cosmetics and skin care.

***Co-branding:*** By 2002, *Taj Group of Hotels* and *Lakme Lever* had joined hands for beauty salons. The salons were to be managed by the *Taj* while *Lakme* would be in charge of sourcing equipment, experts and training the staff. As a case study for co-branding, the two had initially tied up to open unisex *Lakme salons* in the hotel chain's business and leisure properties across the country. A beginning was made by opening two such salons in *Taj Connemara*, Chennai, and *Taj Blue Diamond*, Pune, with planned expansion of up to 11 such salons at its various properties by the end of 2002. In an interview to Business Line, Mr Tarun Mehra, and GM - Salons, *Taj Group of Hotels* had said that the partnership for salon management would, "not only enable us to get expertise from *Lakme*, but will also help us to get the right kind of inputs to make our salon business a success".

This tie-up with *Lakme Lever* included setting up of Lakme salons in all those properties that did not have beauty salons – as well as conversion of the existing salons into Lakme Salons. "We are trying to standardize the quality of Taj's salon service across all our properties through this tie-up," remarked Mr Mehra. "We believe that Lakme Lever's Beauty Salon has the required expertise to add value to our chain of salon operations," he added.

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**Win-win/synergy:** LBS gets the right positioning for its service through the association, while Taj gets to offer, a la Total Product Concept, a high value component to its offer, enhancing its competitive advantage. The pricing at these salons would be at a higher mark-up compared to other *Lakme Beauty Salons*. Also in the offering were value packages for the services available in these salons and the introduction of a loyalty programme.

**Offer:** *Lakme Beauty Salon* is striving to offer that extra something which one expects in every aspect of beauty care services, which includes facials, manicures, pedicures, makeup, hairdressing, coloring and grooming. They wait on their customers 'hand and foot' to make them look gorgeous, feel divine, gently letting them discover the whole new aspect for themselves. LBS offer the following services:

- Bridal service
- Hair care
- Mehendi
- Beauty
- Lakme products
- Skin care

Open seven days a week from 11 a.m. to 8 p.m. the *Lakme Beauty Salon* has been positioned as "gateway to a fuller, more beautiful you".

**Expansion plans:** By 2005, Lakme has plans to open 150 beauty salons to consolidate its position in the ₹ 1,000 crore (₹ 10 billion) salon market of which a mere ₹ 170 crore comes from the branded segment. The intent is to further increase market share in both categories (cosmetics and skin care). With 60 Lakme Beauty Salons spread across 22 cities, the target for end-2004 was to open 30-40 more salons in eight more cities.

The salon business today contributes to 15 per cent of revenues from the *Lakme* brand and is expected to go up to 30 per cent over the next three years. The LBS brand is relatively absent in the east, which was due to the recently adopted franchisee model: it got built around the four original salons at Mumbai, Chennai, Delhi and Bangalore. Entry into Kolkata was made in the beginning of 2005. LBS expected to grow at a rate higher than the industry average of 13 per cent.

**Education:** Lakme stuck to its plans to start beauty treatment and hair styling courses in 2004 through the *Lakme Beauty Academy* in Mumbai, Chennai and New Delhi. The mission of the training Academy was to provide people with skills required in the beauty business. The courses include basic training and up gradation skills for professionals costing between ₹ 5,000 to ₹ 15,000. LBS have a requirement for at least 400 people to manage their expansion plans. There was a dearth of skilled manpower, which the Academy sought to fill. There are also plans to take the Academy to major metros. "Beauticians trained by the academy will get absorbed both in *Lakme Beauty Salons* and in the industry in general," a Lever spokesman says, explaining: "The future growth of the industry will require more trained beauticians."

**Business generation:** *Lakme Beauty Salons* have a fairly vast spread presence across SEC A and B cities: Delhi, Chandigarh, Jalandhar, Ludhiana and Amritsar in the North; Mumbai, Goa and Aurangabad in the West; and in the South, in Bangalore, Chennai, Mysore, Mangalore and Coimbatore. Lakme was the first corporate house to enter the salon business in the country. The concept of salons has been to a great extent redefined since Lakme Beauty Salons were introduced.

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**Promotions, in-store activities:** LBS have striven to make its in-store promotions innovative and personality-driven:

- Special tips and advice by India's ace make-up artist Cory Walia.
- basing the noted hair trichologist Dr. Rita Khatwani at *Lakme Beauty Salon*, Churchgate, to make her available for consultancies.
- Workshops with hair expert Samantha Kochhar introducing the look of the year at the *Lakme Beauty Salon*, in New Delhi, along with Lakme Image Consultant Malvika Tiwari and Sunsilk Hair. The workshop was a part of the promotion that leading shampoo brands Sunsilk, Clinic Plus and Clinic All Clear have initiated across the country where the consumers can avail of professional hair advice at an affordable price.
- Expert Samantha Kochhar briefing media on the Winter Look of 2003 at the *Lakme Beauty Salon*, New Delhi.

### **Industry Opportunity & Competition Analysis**

Baccarose, the companies that distribute and markets premium lifestyle brands like *Elizabeth Arden*, *Escade*, *Nina Ricci* and *Siedo*, is planning to open Clarins beauty studios in Bangalore, Delhi and Chennai over the next two years. At present, it has only one studio in Mumbai. Meanwhile, several companies that run beauty salons are setting up training institutes, competing head on with *Lakme* in another area. *L'Oreal Professional*, a division of *L'Oreal*, has invested in four technical centers (in Mumbai, Delhi, Kolkata and Bangalore). *Schwarzkopf Professional*, a division of Henkel Spic, has a training academy in Delhi. According to Shekhar Sethu, general manager at *Schwarzkopf Professional*: "Technical and service standards have been improving rapidly with companies investing in technical education."

**Salon Business & Growth:** If the big boys are expanding, it's because business is growing at impressive rates. Lakme's beauty salons in Mumbai clocked 28 per cent growth in revenue, 21 per cent growth in Chennai and a hefty 60 per cent or so growth rate in Bangalore. The Marico Industries-promoted *Kaya Skin Clinic* (which the company says is a skin treatment business) started in the third quarter of 2002-2003, but now has over 10 clinics in India and abroad. *Kaya's* turnover crossed ₹ 1 crore (₹ 10 million) during the third quarter of 2003-2004. The clinics have started breaking even.

**Product off take:** Furthermore, companies like *Henkel*, *L'Oreal* and *Wella*, the German hair care company, are seeing the off take of their products from beauty salons climb. According to industry sources, the salons generate over ₹ 200 crore (₹ 2 billion) in product sales. The statistics tell a fuller story. According to Value Notes Database, the Pune-based research firm, India has over 61,000 beauty salons in towns that have a population of over one million. It is difficult to estimate the beauty salon industry's estimated turnover, which is anywhere between ₹ 1500-2,000 crore (₹ 15-20 billion), with the metros accounting for about 60 per cent of this. The large beauty salons take up over 27 per cent of the revenue in the towns.

**Consumer behaviour:** So why is the beauty salon business booming? Explains Dipali Prasad, brand manager, retail, House of Baccarose: "As 'feel good' is becoming very important in today's high stress urban environment, beauty treatments at salons, gyms, massages, the spa experience and so on have become a part of people's lifestyles. Owing to the increasing demand the salon segment is experiencing a high growth rate. Salons are coming out of their 5-star environment and making an appearance in stand-alone formats."

The business itself is rapidly changing. A few years ago, beauty salons used to offer regular services (waxing, threading, bleaching, facials). Now they offer specialised services

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like visible radiance lightening facials, intense glow facials, skin toning facials, hair reviving, hair revitalising and scalp conditioning programmes, among other things.

Strikingly too, men are flocking to beauty salons in ever increasing numbers. Says Vismay Sharma, director, L'Oreal Professional India: "Men are getting more and more enthusiastic about beauty services. Business in men's salons is growing slightly faster than in women's salons as men are getting more conscious about their looks." Adds Prasad: "Men comprise 25-30 per cent of the customers at the *Clarins beauty studios*."

Sums up a consultant at *Jacques Dessang*, the Paris-based unisex beauty salon that fashion house *Ravissant* introduced into India and which has a presence at Mumbai's Taj Mahal Hotel: "The image of the beauty salon has changed. It is now known for its infrastructure, ambience and service. Consumers today are willing to pay much more for a better experience." No doubt, HLL and Baccarose will bear testimony to that.

**Marketing strategies:** The newest stalls in 10 branches of Shopper's Stops around the country are temporary salons being set up by top-selling shampoo Sunsilk, a product of *Lakme Lever*. Hair stylists like Jawed Habib demonstrate their skills. The aim to boost awareness in the run-up to the Miss World pageant where Sunsilk was the official sponsor of the beauty show.

*Hindustan Lever*, which makes Sunsilk, insists that the salons are only a temporary affair but it believes they can give tremendous publicity mileage. And it is only following in the footsteps of other fast moving consumer goods companies – like *CavinKare*, *L'Oreal*, *Marico* and *Wella* – which are opening exclusive salons and clinics in a bid to reach out to end users.

*Lakme* has had four salons for the past 25 years. In the last 18 months it had gone into overdrive and opened 42 outlets in different parts of the country. And there is no stopping – it plans 200 salons by the next two years.

Why are corporate houses on a beauty binge? For years now, companies which had a range of personal care products have been hard-selling their products to hairdressers and beauty salons. Now, some are looking at forward integration and getting into the beauty business themselves. Arvind Mahajan, partner at IBM Business Consulting Services says, "A lot of value is shifting to services. In that context, it helps them maintain a relationship with customers and capture value downstream." Adds Harsh Mariwala, chairman and managing director of the ₹ 696-crore Marico Industries: "It is one way of going up the value chain."

So let's look at the industry makeover that is taking place. In August, for the first time since French cosmetic major *L'Oreal* entered India a decade ago, it has collaborated with entrepreneurs to set up an upscale salon – HFX (Hair effects). New business opportunities for Marico imply setting up *Kaya* skincare clinics, currently being test-marketed in Mumbai. *CavinKare* has a range of salons targeting different wallet sizes. And Wella began this year tying up with 30 outlets that have been rebranded as Esteem parlours. Similarly, Godrej Consumer Products, which makes ColourSoft hair colours, has toyed with the idea of sprucing up in salons. It seems to have abandoned these plans for the moment.

These ambitions are also driven by the fact that tough economic conditions have put profitability under pressure for many companies. And the growth potential in the service industry is tremendous. Even though there are no audited numbers, players peg the salon business at around ₹ 800 crore (₹ 8 billion) and say that it is growing at 25 per cent. What's more, it is largely unorganised. But with brand awareness and higher purchasing power, corporates hope to change the complexion of the game.

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**The fatal attraction:** Just look at the margins in the business. “It is like drinking coffee at home and having it at Barista,” says D Shivakumar, business head, Hair care at HLL. While margins in the traditional FMCG business hover in the 8 per cent to 15 per cent band for most companies, the sky is the limit for salons. For instance, a box of good hair color retails at around ₹ 350. Go in for a cut, wash and coloring and you shell out anything from ₹ 1,500 to ₹ 3,000. “It’s all in the nature of services offered,” says a marketer.

Also, consumer brand loyalty, say companies, is much more for services than products. In an age, where brands of all hues are fighting for shelf space, affiliated salons become an ideal channel to route your products through. That’s why *Lakme* is trying to make its presence heavily felt in the marketplace. “There are points of time when consumer habits and lifestyles are changing, so you look at opportunities to grow your existing business,” says Anil Chopra, managing director of Lakme Lever. So while *Lakme salons* not only stock a range of products that go under its brand name, it also showcases part of the HLL portfolio. In fact, it is this lifestyle change and the need to ‘look good,’ that has motivated Chennai-based CavinKare to set up a group company – *Trends in Vogue*. The company is opening three separate chains, catering to assorted wallet sizes that are all targeted at 20 to 35 years old. At the lower end is Fyne Cut, a budget salon for men. Positioned as an ‘amazing value for money’ offering, it competes with the friendly neighborhood barber.

*Green Trends* will have a range of men’s and women’s salons aimed at the middle class. The recently launched *Limelite* is the premium brand targeting upper crust men, women and kids. To ensure that it offers ‘an international standard beauty care’, *CavinKare* has tied up with German hair major Wella of Germany and Beaubelle of Switzerland.

Says Sanjay Gupta, general manager, *Trends in Vogue*, “We realised that there was a need gap in the grooming industry. We use various brands of products at these salons, including those that do not belong to us. The objective is to give the consumer a service suitable for him. “That’s why even HLL is bonding with consumers through the Sunsilk salons.” The objective is to build the event and the association of giving customised answers to Sunsilk users. Consumers are moving from product to experience,” says HLL’s Shivakumar.

He denies that his company is making yet another attempt to bond with consumers, but industry experts say that HLL would never invest in anything that didn’t have a long term potential. So to woo customers, on offer are free haircuts and beauty treatments by Habib and beauty specialist Samantha Kochhar. *Marico’s Kaya* trip is more an attempt to lessen its reliance on cash cows Saffola and Parachute. Over the years, the brands, which have gained market share, have also been milked dry with various extensions, many of which have failed.

In fact, unlike other players where the service foray has synergies with their brand portfolio, *Kaya* is absolutely out of sync with Marico’s platter. For *Wella*, it has been a year of ‘reinventing the wheel’ according to Sebastian Zachariah, head, creatives and communication at *European Hair cosmetics*, the wholly owned subsidiary of Wella AG. After calling off its two-year-old marketing tie-up with J L Morrison of *Nivea fame* in February, 2003, it is looking at the salon business with enthusiasm.

*Wella*, which has no retail division and sells only through the parlor route, has plans to open 150 salons by this fiscal end. “We have to evolve given the scenario. That’s the only way to penetrate the market,” says Zachariah. “For us, it is a perfect extension,” says Vismay Sharma, general manager, professional products division at L’Oreal. Having tied up with parlours three years ago to call them Prestige outlets, its recent foray into HFX is a completely new initiative. “Salons as a channel are by far the most interesting,” he adds.

Contd...

**Notes**

All the players echo similar views. But it could be slightly unfamiliar territory. But for LBS, its strength might be that it was in the beauty business for over a quarter of a century, tracking the aspiring Indian woman; its weakness could be that it was foraying into experience and services which were intangible and difficult to measure for quality and for maintaining consistency.

**Questions:**

1. What advantages did Lakme Beauty Salons start with and what were its inherent drawbacks?
2. Analyse the beauty industry completely, its opportunities and competition.
3. Enumerate the different rationale for Lever to extend its product brand to services.
4. How can LBS overcome the inherent drawbacks and disadvantages from its offer characteristics?
5. “HLL turned over a ‘new leaf’”. Explain the significance and irony of the statement with regard to brand HLL.

**Source:** ORG-MARG sales audit report

### **1.4 Summary**

This unit attempts to give an overview of the functions in as simple manner as possible.

- In stage four a return to roots can be seen, which not a bad thing is. This will add new depth and grounding to the literature on service management.
- In operations it will allow us and encourage us to undertake research and make strong statements about things which we understand (quality, design and improvement, for example).
- But somehow we need to add this depth and focus without losing the richness that has developed as different functional areas have come together to share areas of common interest.
- Services sector is playing the role of growth driver in many developed and developing economies.
- The value of service output in many economies crossed 50 per cent in GDP and such economies became service economies.
- If services output in the unorganised sector and the value of hidden service sector also are taken in the GDP calculation, there may not be any economy in the world that cannot be called as service economy. Services sector registering consistent growth over other sectors of the economies.
- The reasons for such growth are basically two fold. One is from the industry and the other is forming the final consumers. Services growth supports manufacturing industry as well as services sector for further growth besides providing quality life to the consumers.
- Therefore, services sector is the engine for the growth and development of any economy.
- The service sector in India has grown significantly during the last three decades.
- The major reasons for growth are Economic Affluence, changing role of women, cultural consciousness of healthcare, economic liberalisation, export potential, retail revolution knowledge process out sourcing, and real estate and construction services year by year service sector is improving its position in the economy and signaling tremendous growth potential in future.

## **1.5 Keywords**

Notes

**Search Good:** A Product with features and characteristics easily evaluated before purchase.

**Service:** A Type of economic activity that is intangible is not stored and does not result in ownership.

**Service Marketing:** Marketing based on simple relationship and value

**Service Encounter:** The didactic interrelation between an internal customer and an internal service provider

**HRP:** Human Resource Planning

**GDP:** Gross Domestic Product

## **1.6 Review Questions**

1. Explain the paradigms in service marketing.
2. Define the concept of Service Encounter.
3. What do you mean by service technology?
4. Discuss the reasons identified or the growth in demand for services directly from customers.
5. *Christopher Lovelock* described services through two different approaches. What are they?
6. Give some specific definitions of the service concept.
7. Describe the process of Service Operation Management.
8. “This growing awareness of the need to re-operationalise service management material has led to an attempt to develop an agenda.” Elaborate this statement.
9. The reasons for the growth of service sector can be broadly categorised into two. What are they?
10. Discuss the impact of growth of service sector on India.

## **Answers: Self Assessment**

1. False
2. True
3. False
4. True
5. True
6. 1980
7. 1955
8. Economic
9. Manufacturing
10. Planned approach
11. Secondary

**Notes**

12. Younger
13. New or improved
14. India
15. Services

**1.7 Further Readings**



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*Online links*

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## **Unit 2: Emergence of the Services Economy**

Notes

### **CONTENTS**

Objectives

Introduction

2.1 Service Concept

2.2 Overview of the Indian Economy

2.3 Importance of Services in the Economy

2.4 India's Services Sector

2.5 Performances of Some Major Services

2.6 Challenges and Outlook

2.7 Summary

2.8 Keywords

2.9 Review Questions

2.10 Further Readings

### **Objectives**

After studying this unit, you will be able to:

- Elaborate the overview of the Indian economy
- Explain the importance of services in the economy
- Discuss the services sector in the Indian economy
- Describe the various performance of some major services

### **Introduction**

The services sector has been a major and vital force steadily driving growth in the Indian economy for more than a decade. The economy has successfully navigated the turbulent years of the recent global economic crisis because of the vitality of this sector in the domestic economy and its prominent role in India's external economic interactions. The services sector covers a wide range of activities from the most sophisticated Information Technology (IT) to simple services provided by the unorganised sector, such as the services of the barber and plumber. National Accounts classification of the services sector incorporates trade, hotels and restaurants; transport, storage, and communication; financing, insurance, real estate and business services; and community, social, and personal services. In World Trade Organization (WTO) and Reserve Bank of India (RBI) classifications, construction is also included.

### **2.1 Service Concept**

One of the first to define services was the American Marketing Association, which, as early as in 1960, defined services as "activities, benefits, or satisfactions which are offered for sale, or provided in connection with the sale of goods." This definition took a very limited view on services as it proposed that services are offered only in connection with the sale of goods.

**Notes**

The other definition which was proposed, in 1963, by Regan suggested that “services represent either intangibles yielding satisfaction directly (transportation, housing), or intangibles yielding satisfaction jointly when purchased either with commodities or other services (credit, delivery)”. For the first time services were considered as pure intangibles capable of providing satisfaction to the customer which could be marketed like tangible products.

Robert Judd defined service as “a market transaction by an enterprise or entrepreneur where the object of the market transaction is other than the transfer of ownership of a tangible commodity”.

Lehtinen, in 1983, defined services as “an activity or a series of activities which take place in interactions with a contact person or a physical machine and which provides consumer satisfaction.”

Kotler and Bloom, in 1984, defined services as “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.”

Gummesson highlighting the intangible nature of services defined “services as something which can be bought and sold but which you cannot drop on your foot.” This definition also pointed out one basic characteristic that the services can be exchanged even though they are not tangible.

According to Gronross, “a service is an activity or series of activities of more or less intangible nature that normally, not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and/or system of the service provider, which are provided as solution to customer problems.”

This definition takes into account the following important features of services:

- Services are by and large “activities” or they are series of activities rather than things.
- As a result services are intangible.
- They take place in the interaction between the customer and the service provider, which means that services are produced and consumed simultaneously.
- Customer has a role to play in the production process as the services are provided in response to the problems of customers as solution.

## **2.2 Overview of the Indian Economy**

India is projected to see a faster growth of 7.5 per cent this fiscal, on the back of higher savings and investment rates, even as most of the Asia-Pacific economies are likely to expand at a slower pace, as per a United Nations (UN) report. “We expect it to expand by about 7.5 per cent in 2012-13,” said Nagesh Kumar, Chief Economist, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). “Today India is among the most attractive destinations globally, for investments and business and FDI had increased over the last few years,” according to Ms. Pratibha Patil, President of India. The Indian economy has continuously recorded high growth rates and become an attractive destination for investments, highlighted Ms. Patil.

Meanwhile, India continued its ascent as a top destination for private clean energy investment, according to a research report released by The Pew Charitable Trusts. “Clean energy investment, excluding research and development, has grown by 600 per cent since 2004,” according to Phyllis Cuttino, Director, Pew’s Clean Energy Program. India’s clean energy sector continued to flourish in 2011, with private investment increasing 54 per cent to US\$ 10.2 billion, placing the country at sixth position among the G-20 nations. This was the second highest growth rate among the G-20 nations. The World Economic Forum (WEF) plans to establish permanent physical presence in India by setting up an office in the next twelve months. “Today, India is amongst the most

important G-20 economies and this underscores Forum's commitment to the country as a partner," according to Mr Sushant Palakurthi Rao, Senior Director, WEF.

**Notes**

### **2.2.1 The Economic Scenario**

Tata Consultancy Services (TCS) has been named as the world's fourth most valuable Information Technology (IT) services brand by leading global brand valuation company, Brand Finance. "With a strong brand strategy and a refined sponsorship portfolio, TCS has been able to improve both brand awareness and its profile globally," as per David Haigh, Chief Executive Officer and Founder, Brand Finance.

The Union Ministry of Science and Technology has selected three consortia that will receive a grant of ₹ 125 crore (US\$ 23.58 million) from the Centre. The funding will be over five years, under the Indo-US Joint Clean Energy Research and Development Centre. The Joint Clean Energy is part of the US-India Partnership to Advance Clean Energy, announced by the Indian Prime Minister, Dr Manmohan Singh, and the US President, Mr Barack Obama, in November 2011, which aims to accelerate the transition to high performing, low emissions, and energy secure economies.

Non-resident Indians (NRIs) deposited US\$ 11 billion into bank deposits during 2011-12, three times more than in the previous year, according to data released by the Reserve Bank of India (RBI). The highest accretion was in the non-resident (external) rupee account, at US\$ 7.46 billion, against an outflow of US\$ 280 million in 2010-11.

The Government of India has approved 14 Foreign Direct Investment (FDI) proposals amounting to US\$ 288.05 million, based on the recommendations of Foreign Investment Promotion Board (FIPB). India's foreign exchange (Forex) reserves increased by US\$ 1.4 billion in the week ended April 20, 2012, according to data released by the RBI. The reserves have increased US\$ 205 million since the start of this financial year FDI inflows worth US\$ 341.49 million were recorded in the drugs and pharmaceuticals sector between April 2009 to February 2012. At present, the Government of India allows 100 per cent FDI for both Greenfield and existing projects in the sector, according to Mr Jyotiraditya Scindia, Minister of State for Commerce and Industry. India is the global leader in the IT-business process outsourcing (BPO) industry with half of the world's back office being located here. Indian outsourcing revenue at US\$ 59 billion for 2011, accounts for 51 per cent of the global offshore market share, as per a report by Tholons Research. The total direct employment by Indian IT-BPO sector (as of 2011) was 1.98 million and indirect employment was 7.5 million.

### **2.2.2 Growth Potential Story**

Consumer spending in India is likely to grow nearly four times to touch US\$ 3.6 trillion by 2020, driven by rising incomes and aspirations, widespread media proliferation and better physical reach across the country, according to a joint report titled, 'The Tiger Roars – How a billion plus people consume and shop' by Boston Consulting Group (BCG) and the Confederation of Indian Industry (CII).

The Research and Development (R&D) talent pool is growing at the rate of 9 per cent every year and expected to reach 250,000 by 2015, as per C S Chandramouli, Senior Director-Globalisation Advisory, Zinnov. Indian Multinational Companies (MNC) are moving into tier-II cities, highlighted the Zinnov study. Fresh talent pool in tier-II cities is estimated to form 35 per cent of the Indian R&D workforce going ahead. In the tier-II cities, work such as testing, level 3 customer supports and bug fixing are being undertaken. Indian Space Research Organisation (ISRO) plans to launch its biggest ever spacecraft, the 5,000 kg GSAT-11, by 2014. The advanced communication satellite, GSAT-11, will be double the capacity and size of the present buses, and

**Notes**


will be built over the next two years. The Indian IT infrastructure market will reach US\$ 2.05 billion in 2012, showing a growth of 10.3 per cent over the previous year. This market, comprising servers, storage and networking equipment, will touch the US\$ 3 billion mark by 2016, according to technology research firm, Gartner.

The Indian internet economy is expected to touch ₹ 10.8 trillion (US\$ 203.77 billion) by 2016, according to a report titled 'Connected World Series study' by the Boston Consulting Group. India's internet economy's growth rate of 23 per cent makes it the second fastest across the G-20 countries and ahead of many other developing nations. The report 'The \$4.2 trillion Opportunity: The Internet Economy in G-20', further notes that if the internet were a sector, it would be the eighth largest in India. A study has pegged Indian potential for wind energy at 3,000 gigawatt (GW). It claims that the potential for wind energy utilization with the prevalent technologies is far in excess of earlier estimates by the Centre for Wind Energy Technology (CWET). The Centre estimated Indian wind energy potential at 49,000 megawatt (MW) and increased to 100 GW subsequently. The Indian outbound meetings, incentives, conventions and exhibitions (MICE) market is estimated to be around US\$ 550 million-US\$ 600 million and expected to increase by 10-15 per cent in 2012. Spending by Indian Inc on corporate travel is helping in the growth of the market.

The wealth of high net worth individuals (HNIs) in India, is set to grow by a compounded annual growth rate (CAGR) of 23 per cent over the next four years and will touch a staggering ₹ 249 trillion (US\$ 4.69 trillion), highlighted a report by Karvy Private Wealth, the wealth management arm of the financial services firm Karvy Group. Nearly 50 per cent of people surveyed in India believe that interacting with the Government is easy, as per Accenture. The response is higher than the results from six other countries – Australia, France, Germany, Singapore, the US and the UK –participating in the global pulse survey. Users in India are more likely than those from all other countries to use digital services beyond websites and portals. Social networking site LinkedIn's user base in India has grown 300 per cent during the last three years of its marketing presence in the country. The firm has about 14 million users from India, which has quickly become its second-largest market globally, according to Jeff Weiner, LinkedIn's Chief Executive Officer.

**2.2.3 Road Ahead**

India continues to urbanize at a strong pace driven by a combination of up trending consumption, robust job creation and growing financial penetration, according to Morgan Stanley's proprietary Alpha Wise City Vibrancy Index. The report reveals that Bengaluru, Chandigarh, Hyderabad, Pune and Chennai are the top 5 vibrant cities. The Government had liberalised investments made by registered foreign institutional investors (FIIs) under the Portfolio Investment Scheme (PIS) from April 10, 2012. Earlier, these investments required Government approval. India will see the largest number of merger and acquisitions (M&A) in the pharmaceutical and healthcare sector, as per consulting firm, Grant Thornton. A survey conducted across 100 companies has revealed that a fourth of the respondents were optimistic about acquisitions in the pharmaceutical sector.



*Note* Exchange rate used INR 1= US\$ 0.018867 as on May 14, 2012

**Self Assessment**

State True or False:

1. The Government of India has approved 14 Foreign Direct Investment (FDI) proposals amounting to US\$ 288.05 million, based on the recommendations of Foreign Investment Promotion Board (FIPB).

2. India continues to urbanise at a strong pace driven by a combination of up trending consumption, robust job creation and growing financial penetration, according to Morgan Stanley's proprietary AlphaWise City Vibrancy Index.
3. The Union Ministry of Science and Technology has selected three consortia that will receive a grant of ₹ 125 crore (US\$ 23.58 million) from the Centre.
4. Tata Consultancy Services (TCS) has been named as the world's fourth most valuable Information Technology (IT) services brand by leading global brand valuation company, Brand Finance.
5. India's clean energy sector continued to flourish in 2011, with private investment increasing 54 per cent to US\$ 10.2 billion, placing the country at sixth position among the G-20 nations.

**Notes**

### **2.3 Importance of Services in the Economy**

Service Sector of Indian Economy contributes to around 55 percent of India's GDP during 2006-07. This sector plays a leading role in the economy of India, and contributes to around 68.6 percent of the overall average growth in GDP between 2002-03 and 2006-07. There has been a 9.4 percent growth in the Indian economy during 2006-07 as against a rise of 9 percent in the same during 2006-07. During this growth in Indian economy, the service sector witnessed a rise of 11 percent in the year 2006-07 against the 9.8 percent growth in 2005-06. The service sectors of Indian economy that have grown faster than the economy are as follows:

- Information Technology (the most leading service sectors in Indian economy)
- IT-enabled services (ITeS)
- Telecommunications
- Financial Services
- Community Services
- Hotels and Restaurants

There has been a 13 percent hike in the service sectors of trade, hotels, transport and communication in India's economy as compared to the 10.4 percent rise in the previous year. The financial services that comprise of banks, real estate, insurance, and business services witnessed a rise of 11.1 percent during 2006-07 against the 10.9 percent growth in the previous year. Service sectors including community, social, and personal services experienced a growth of 7.8 percent during 2006-07 as against 7.7 percent growth in the previous year. The service sector of India has also witnessed a remarkable rise in the global market apart from the Indian market. It has experienced a rise of 2.7 percent in 2006 from that of 2 percent in 2004. The broad-based services in the trade sector have undergone a large-scale rise. A statistics concerning the growth of India's service sectors are listed below:

- The software services in Indian economy increased by 33 percent which registered a revenue of USD 31.4 billion
- Business services grew by 82.4 percent
- Engineering services and products exports grew by 23 percent and earned a revenue of USD 4.9 billion
- Services concerning personal, cultural, and recreational had a growth of 96 percent
- Financial services had a rise of 88.5 percent
- Travel, transport, and insurance grew by 23 percent

Notes

The software services in Indian economy along with the export of products is growing at a massive pace and thereby witnessed an alarming rise of 35.5 percent and reached a lump sum amount of USD 18 billion. The ITeS and BPO sectors grew by 33.5 percent and earned revenue of USD 8.4 billion. The service sector of Indian economy has been the most high-powered sector in India's economy. It has also been focusing in various investments of late. As Indian economy is looking forward for more liberalisation, sectors like banking are on its way to loom large and occupy a more significant position in India's economy.



Caselet

### **Case: Myths about Service Industries**

**T**here are certain myths about services sector. It is because of these myths that people are unable to relate the role and contribution of the services sector in the economy. The first myth is that a service economy produces services at the expense of other sectors. The fact is that many service industries are major purchasers of manufactured goods. Take the example of airlines, fast food outlets, educational institutions, etc. which buy so much of manufactured products.

The second myth is that service production is primarily labor intensive. In fact, a number of service sectors like healthcare, hospitality, etc. are capital intensive. Productivity are therefore equally important in service organisations as returns on capital employed will be one of the major determinants of success.

The third myth about services is that people satisfy their product needs before the need for services. This is also not true. Research findings of a study revealed that people value services as much as products; however, they may buy services in a less cyclical way, as compared to goods. The fourth myth about the services sector is that service businesses are 'cottage industries' and service jobs are low paying. If you check the list of Fortune 500 companies you will be surprised to see the number of service companies figuring in this list.

The other myth about the service sector is that services are only offered by the government sector. The fact is that on the one hand public services, like telephones, health care, power generation and distribution, etc. are being privatised and on the other hand large enterprises are entering into services sector. Take the example of Escorts into health care, Tata's in power distribution, etc. In fact the service organisations are quite varied and different from each other.

First category includes the public agency sector for example post offices, police and fire departments, water and electricity authorities, etc. The second group is made up of the private non-profit sector running charities, foundations, old age homes or various societies involved in issues related to women, literacy, family welfare, etc. Next comes the business sector comprising banks, hotels, airlines, travel agencies, tour operators, courier services, insurance, consultancy – legal management or medical. Lastly, it is the sector which provides services to those involved in manufacturing. This includes those firms providing security personnel, accountants and auditors, computer operators and software consultants which help manufacturing firms in their operations.

In addition, there are a number of other types of services which are emerging in the western society. These range from, on a charge, the availability of a baby sitter to a group of hippies making the party colorful. In India also such services are emerging whether they are a troupe of young boys and girls doing a music-cum-dance show on a birthday or wedding, house maintenance services, real estate brokers, security, etc.

### 2.3.1 Services Sector: International Comparison

Notes

Conventional wisdom suggests that during the early development phase of any country, expansion of output in manufactured goods precedes growth in the services sector. As a country progresses further manufacturing often takes a back seat, giving way to the services sector in terms of both output and employment, and manufacturing firms themselves become increasingly service-centric in order to remain competitive. Some have argued that the decline in manufacturing and corresponding shift to services is unsupportable in the long run as services depend critically on manufacturing for their demand. Although this argument may be applicable for certain services such as retailing and transportation, it does not entirely hold for many other services. IT, in particular, has been a major force behind recent expansion in manufacturing rather than the other way round. While internationally, the conventional wisdom of development holds good, in the case of the Indian economy, it seems to have been turned upside down, with the services sector taking a substantial lead over manufacturing. In India's case, there are positive spillovers from services growth to manufacturing, through income, demand, technology, and organisational learning.

### 2.3.2 Services GDP: International Comparison

In 2010, the share of services in the US\$63 trillion world gross domestic product (GDP) was nearly 68 per cent, as in 2001. India's performance in terms of this indicator is not only above that of other emerging developing economies, but also very close to that of the top developed countries. Among the top 12 countries with highest overall GDP in 2010, India ranks 8 and 11 in overall GDP and services GDP respectively. While countries like the UK, USA, and France have the highest share of services in GDP at above 78 per cent, India's share of 57 per cent is much above that of China at 41.8 per cent. In 2010 compared to 2001, India is the topmost country in terms of increase in its services share in GDP (7 percentage points) followed by Spain and Canada (5.3 percentage points each), the UK (4.5 percentage points), and Italy (3.2 percentage points). In terms of compound annual growth rate (CAGR) for the period 2001-10, China at 11.3 per cent and India at 9.4 per cent show very high services sector growth. Russia at 5.5 per cent and Brazil at 4.0 per cent are a distant third and fourth respectively. While India's growth rate of the services sector at 10.1 per cent in 2009 was higher than that of China at 9.6 per cent, in 2010 it has decelerated to 7.7 per cent while China's has remained constant. All this highlights the prominence of the services sector for India. Despite the higher share of services in India's GDP and China's dominance in manufacturing over services, the hard fact, however, is that in terms of absolute value of services GDP and also in terms of growth of services, China is still ahead of India in 2010.

### 2.3.3 International Trade in Services

Global trade in services has more or less mirrored the trend in merchandise trade, and, by corollary, international demand. World exports of services have shown consistent rise in the 2000s decade with a healthy average annual growth of around 9.5 per cent, except in 2001 and 2009—periods of global slowdown and economic crisis. After having increased by 13 per cent in 2008 (as per WTO data), world exports of services fell sharply with negative growth of 12 per cent in 2009, only to bounce back in

2010 with 9 per cent growth. In 2010 the value of services exports was US\$3,695 billion, slightly below the 2008 pre-crisis peak of US\$ 3,842 billion. While world trade in services is dominated by the developed countries, emerging economies like China and India are now playing an increasing role. India is the most dynamic exporter of services and ranked seventh in the world in both exports and imports of services in 2010.

Notes

**2.3.4 Foreign Direct Investment (FDI) in the Services Sector**

The global economic and financial crisis had a dampening effect on overall FDI flows. FDI in services, which accounted for the bulk of the decline in FDI flows due to the crisis, continued on its downward path in 2010. FDI in all main service industries (business services, finance, transport and communications, and utilities) fell, although at different rates. Overall, FDI projects in the services sector declined from US\$ 392 billion in 2009 to US\$ 338 billion in 2010, resulting in its share in sectoral FDI declining from 33 per cent to 30 per cent in this period. Business services declined by 8 per cent compared to pre-crisis levels as multinational companies, who are outsourcing a growing share of their business support functions to external providers, downsized their operations due to economic slowdown. Transportation and telecommunication services also suffered equally in 2010 as the industry’s restructuring was more or less complete after the round of large mergers and acquisition deals before the crisis, particularly in developed countries. FDI in the financial industry experienced the sharpest decline and is expected to remain sluggish in the medium term. Over the past decade, its expansion was instrumental in integrating emerging economies into the global financial system, bringing substantial benefits to host countries’ financial systems in terms of efficiency and stability. Utilities were also strongly affected by the crisis as some investors were forced to reduce investment or even divest due to lower demand and accumulated losses.

**2.4 India’s Services Sector**

Different indicators like share in national and states’ GDP, FDI, employment, and exports indicate the importance of the services sector for the Indian economy.

**2.4.1 Services GDP**

The share of services in India’s GDP at factor cost (at current prices) increased from 33.5 per cent in 1950-1 to 55.1 per cent in 2010-11 and to 56.3 per cent in 2011-12 as per Advance Estimates (AE). If construction is also included, the service sector’s share increases to 63.3 per cent in 2010-11 and 64.4 per cent in 2011-12. With a 16.9 per cent share, trade, hotels, and restaurants as a group is the largest contributor to GDP among the various services’ subsectors, followed by financing, insurance, real estate, and business services with a 16.4 per cent share. Community, social, and personal services with a share of 14.3 per cent is in third place. Construction, a borderline service inclusion, is at fourth place with an 8.2 per cent share (Table).

**Table 2.1: Share of Different Services Categories in GDP at Factor Cost (Current Prices)**

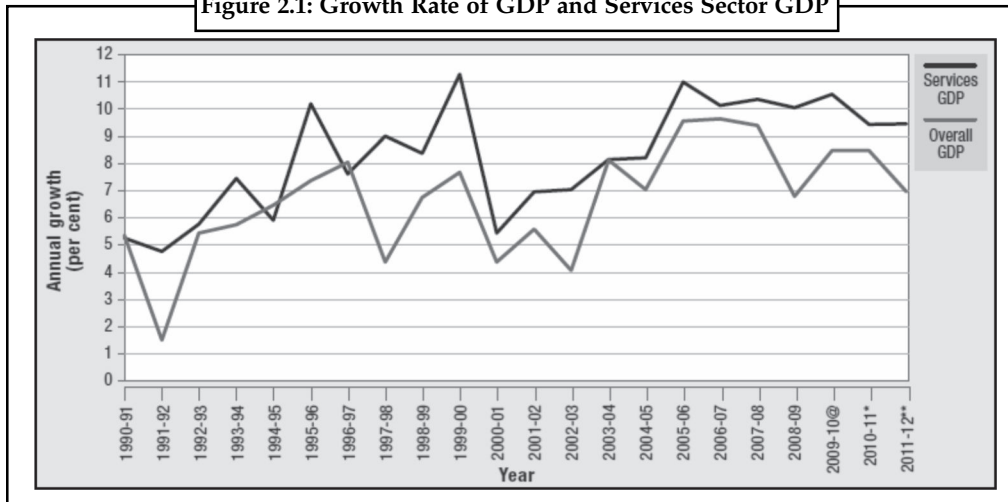
	2006-07	2007-08	2008-09	2009-10@	2010-11*	2011-12**
Trade, hotels, & restaurants	17.1	17.1	16.9	16.6	16.9	25.2 #
Trade	15.4	15.4	15.3	15.1	15.4	
Hotels & restaurants	1.7	1.7	1.5	1.4	1.5	
Transport, storage, & communication	8.2	8.0	7.8	7.8	7.7	
Railways	0.9	1.0	0.9	1.0	0.8	
Transport by other means	5.7	5.6	5.5	5.3	5.4	
Storage	0.1	0.1	0.1	0.1	0.1	
Communication	1.5	1.4	1.4	1.5	1.4	
Financing, insurance, real estate, & business services	14.8	15.1	15.9	15.8	16.4	16.9
Banking & insurance	5.5	5.5	5.6	5.4	5.8	
Real estate, ownership of dwellings, & business services	9.3	9.6	10.3	10.4	10.6	
Community, social, & personal services	12.8	12.5	13.3	14.5	14.3	14.2
Public administration & defence	5.2	5.1	5.8	6.7	6.3	
Other services	7.6	7.4	7.5	7.9	7.9	
Construction	8.2	8.5	8.5	8.2	8.2	8.1
Total services (excluding construction)	52.9	52.7	53.9	54.7	55.1	56.3
Total services (including construction)	61.0	61.2	62.4	63.0	63.3	64.4

**Source:** Computed from Central Statistical Office (CSO) data.

**Note:** Provisional Estimates (PE) \* Quick Estimates (QE) \*\* Advance Estimates (AE) # includes the share of both Trade, Hotels, & Restaurants and Transport, Storage & Communication for 2011-12.



Figure 2.1: Growth Rate of GDP and Services Sector GDP



Source: Based on CSO data.

Note: @PE, \*QE, \*\*AE

The service sector growth rate at constant prices has always been above overall GDP growth rate since 1996-97 except for 2003-04 when the two converged. Thus for the last 15 years, this sector with growth much above overall GDP growth of the economy has been pushing up the growth of the economy with a great amount of stability. The CAGR of the services sector at 10.2 per cent for the period 2004-05 to 2010-11 has been higher than the 8.6 per cent CAGR of GDP during the same period, clearly indicating that the services sector has outgrown both the industry and agriculture sectors. In the years 2009-10 and 2010-11, the services sector has grown at 10.5 per cent and 9.3 per cent respectively. In 2011-12, the growth rate of services is 9.4 per cent (AE).



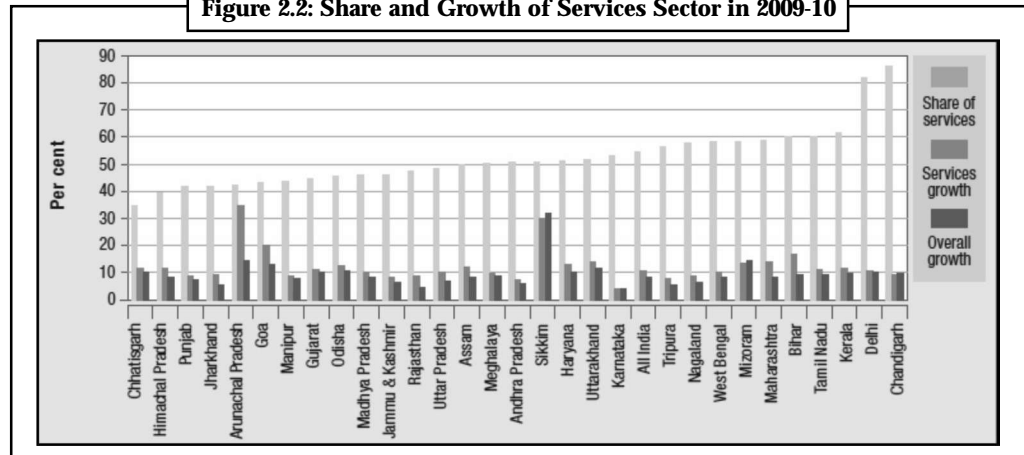
*Did u know?* Decline in foreign investment could affect the country's Balance of Payment situation and also impact the rupee.

## 2.4.2 State-wise Comparison of Services

A comparison of the share of services in the Gross State Domestic Product (GSDP) of different states and union territories (UTs) in 2009-10 shows that the services sector is the dominant sector in most states of India. States and UTs such as Tripura, Nagaland, West Bengal, Mizoram, Maharashtra, Bihar, Tamil Nadu, Kerala, Delhi, and Chandigarh have higher than all-India shares. Chandigarh with an 86 per cent share and Delhi with 81.8 per cent top the list. Other than Chhattisgarh (34.8 per cent) and Himachal Pradesh (39.6 per cent), services in all other states individually hold a share of more than 40 per cent in the GSDP. Thus the services revolution in India seems to be becoming more broad-based, with even the hitherto backward states piggy-backing on the good performance of this sector to go up the escalator of progress. The highest growth rates of the services sector are in the north-eastern states of Arunachal Pradesh (34.9 per cent) and Sikkim (30.1 per cent). Among the other states, Goa with 20.1 per cent and Bihar with 16.6 per cent growth top the list. This is over and above their very high growth rates in 2008-09. Other states with higher than national average growth in the sector are Kerala, Tamil Nadu, Maharashtra and Mizoram.

Notes

**Figure 2.2: Share and Growth of Services Sector in 2009-10**



Source: CSO

Notes Data in the case of Nagaland are for 2008-09.

Shares at current prices, growth rate of constant (2004-05) prices.

**2.4.3 FDI in the Services Sector**

FDI plays a major role in the dynamic growth of the services sector though the ambiguity in classifying various activities under the services sector poses difficulty in the measurement of FDI inflows into this sector. The combined FDI share of financial and non-financial services, computer hardware and software, telecommunications, and housing and real estate can be taken as a rough estimate of FDI share of services, though it could include some non-service elements. This share is 41.9 per cent of the cumulative FDI equity inflows during the period April 2000-December 2011. With the inclusion of the construction sector (6.5 per cent), the share of services in FDI inflows increases to 48.4 per cent. If the shares of some other services or service-related sectors like hotels and tourism (2.02 per cent), trading (1.94 per cent), information and broadcasting (1.60 per cent), consultancy services (1.21 per cent), ports (1.04 per cent), agriculture services (0.91 per cent), hospital and diagnostic centers (0.72 per cent), education (0.30 per cent),

**Table 2.2: Services Attracting Highest FDI Equity Inflows**

Ranks	Sector	2009-10	2010-11	2011-12 (Apr.-Dec.)	Cumulative inflows (Apr. 2000-Dec. 2011)	Percentage to total (in US \$ terms)
1	<b>Services sector</b> (financial & non-financial)	19945 (4176)	15053 (3296)	21431 (4575)	142539 (31710)	20.1
2	<b>Telecommunications</b> (radio paging, cellular mobile, basic telephone services)	12270 (2539)	7542 (1665)	8969 (1989)	57035 (12544)	7.9
3	<b>Computer software &amp; hardware</b>	4127 (872)	3551 (780)	2626 (564)	48940 (10973)	6.9
4	<b>Housing &amp; real estate</b>	14027 ( 2935)	5600 (1227)	2544 (551)	48819 (10933)	6.9
5	<b>Construction activities</b> (including roads & highways)	13469 (2852)	4979 (1103)	7635 (1602)	46216 ( 10239)	6.5

Source: Based on Department of Industrial Police & Promotion data.

Note: Figures in parentheses are US\$ million

air transport including air freight (0.27 per cent), and retail trading (0.03 per cent) are included then the total share of cumulative FDI inflows to the services sector would be 58.4 per cent. Following the general trend in FDI inflows, FDI inflows to the services sector (top five sectors including construction) have also slowed down in 2009-10 and 2010-11, with negative growths of -7.5 per cent and -42.5 per cent respectively in rupee terms. In 2011-12 (April-December), again following the trend of overall FDI inflows, which increased by 50.8 per cent to reach US\$ 24.19 billion, FDI inflows to the top five service sectors (including construction) also increased by 36.8 per cent to US\$ 9.3 billion. Services (financial and non-financial), telecommunications, and construction, are the leading sectors in FDI inflows to the services sector in 2011-12 (April-December). The inflows to the other two service sectors are comparatively low (Table 2.2).

**Notes**

The five service sectors are also the sectors attracting the highest cumulative FDI inflows to the economy with financial and non-financial services topping the list at US\$ 31.7 billion during the period April 2000-December 2011. This is followed by other service sectors – telecommunication, computer software & hardware and housing & real estate. The top five source countries for FDI inflows into India in the financial and non-financial services sector (for which break-up data are available) during April 2000 to December 2011 are Mauritius, which alone accounts for 39.7 per cent of FDI inflows in the service sector, followed by Singapore (15.4 per cent), the UK (8.6 per cent), USA (7.1 per cent) and Japan (4.5 per cent). This is more or less similar to the general sourcing pattern of total FDI with the top five countries remaining the same in the same order of ranking. The shares of the financial and non-financial services sector in total FDI inflows from these sourcing countries are –Mauritius 20.1 per cent, Singapore 30.6 per cent, UK 29.5 per cent, USA 21.9 per cent and Japan 11.9 per cent.

#### **2.4.4 India's Services Trade**

As per Balance of Payments (BoP) data of the RBI, India's services exports grew at a CAGR of 20.6 per cent during the period 2004-05 to 2010-11, compared to the 19.7 per cent CAGR of merchandise exports in the same period. Within the services sector, CAGRs of financial services (52.8 per cent) and business services (29.2 per cent) were higher, while that of software at 21 per cent was low. In terms of size, software is a major services export category, accounting for 41.7 per cent of total services exports in 2010-11. The CAGR for import of services was 20.2 per cent compared to the CAGR of merchandise imports at 21.4 per cent. Among services imports, non-software services (22.6 per cent) and transportation (20.5 per cent) had high CAGRs. The overall openness of the economy reflected by total trade including services as a percentage of GDP showed a higher degree of openness at 50.3 per cent in 2010-11 compared to 25.4 per cent in 1997-98. Openness indicator based only on merchandise trade is at 37.5 per cent in 2010-11 compared to 21.2 per cent in 1997-98.

#### **2.4.5 Services Employment in India**

While agriculture continues to be the primary employment-providing sector, the services sector (including construction) is in second place. As per the National Sample Survey Organization's (NSSO) report on Employment and Unemployment Situation in India 2009-10, on the basis of usually working persons in the principal status and subsidiary status, for every 1000 people employed in rural and urban India, 679 and 75 people are employed in the agriculture sector, 241 and 683 in services sector (including construction), and 80 and 242 in the industrial sector, respectively. State-wise, there are wide differences in the share in employment of different sectors in rural India. While some north-eastern states like Sikkim, Tripura, and Manipur have a high share of employment in the services sector, city states like Chandigarh and Delhi also have very high shares of 826 and 879 out of 1000 employed people. Among the major states, Kerala has a high share of employment in the services sector at 511 persons per 1000. Construction;

Notes

trade, hotels, and restaurants; and public administration, education, and community services are the three major employment-providing services sectors in different states. In urban India the shares of employment in services is very high in most of the states (Table 2.3).

**Table 2.3: State-wise employment in different sectors in rural and urban India in 2009-10**

State/UT	(per 1000 employed people)							
	Agriculture and allied		Industry		Services with construction		Services without construction	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Andhra Pradesh	687	53	97	241	217	705	150	583
Arunachal Pradesh	757	140	32	41	213	817	158	722
Assam	725	27	38	137	257	833	222	757
Bihar	669	146	53	121	279	732	174	609
Chhattisgarh	849	53	39	282	112	666	83	553
Delhi	0	1	120	285	879	712	542	682
Goa	239	14	365	289	397	696	353	552
Gujarat	783	53	62	306	156	641	112	576
Haryana	598	53	98	319	304	627	195	511
Himachal Pradesh	629	85	53	149	320	767	167	676
Jammu & Kashmir	597	110	84	227	316	662	218	552
Jharkhand	548	52	92	160	361	787	145	602
Karnataka	757	94	67	221	176	686	132	558
Kerala	357	110	132	178	511	711	357	570
Madhya Pradesh	824	98	48	203	128	700	62	569
Maharashtra	794	47	52	236	154	716	116	638
Manipur	534	205	90	118	377	677	240	604
Meghalaya	707	58	56	65	236	877	178	780
Mizoram	806	360	14	53	180	587	128	499
Nagaland	741	219	17	35	241	745	200	684
Odisha	676	103	84	215	240	683	144	549
Punjab	618	83	81	249	298	669	168	552
Rajasthan	633	70	54	186	312	743	110	595

**2.4.6 India’s Services Data**

In last year’s Economic Survey, the weaknesses related to availability and quality of services data was highlighted. To reiterate, these are difficulties in compilation of an index of services sector production, non-representation of many service sectors in the calculation of the wholesale price index, limited availability of published data on pricing of services, and limited data on trade in services. Even where data are available, they suffer from deficiencies related to definition, method of collection, suitability for pricing, and construction of indices. The recent efforts in streamlining data in the services sector, though welcome, need to be accelerated in a coordinated manner with the help of experts in the field.

**2.4.7 Performance of Services Sub-sectors**

India’s services sector excluding construction and including construction grew by 9.3 and 9.2 per cent respectively in 2010-11 and by 9.4 and 8.8 per cent respectively in 2011-12, as per the CSO’s AE. This is nearly 2 percentage points higher than the overall growth rate in 2011-12. Broad category-wise, the ‘trade, hotels and restaurants, transport, storage and communications’ category had the highest growth at 11.2 per cent, followed by ‘financing, insurance, real estate, and business services’ at 9.1 per cent in 2011-12. ‘Trade’ and ‘Real estate, ownership of dwellings, and business services’ are two major sub-sectors with shares of 15.4 per cent and 10.6 per cent of GDP respectively in 2010-11. The shares of the two sectors have been more or less stable over the years. In 2010-11, the growth of the former has been good at 9.1 per cent and the latter moderate at 6.9 per cent. Communications followed by banking and insurance are the fastest growing sub-sectors over the years with 27.2 per cent and 14.5 per cent growth respectively in 2010-11 (Table 2.4).

Notes

Table 2.4: Annual growth in India's Services GDP at factor cost (in constant prices)

	(per cent)						
	2005-06	2006-07	2007-08	2008-09	2009-10@	2010-11*	2011-12**
<b>Trade, hotels, &amp; restaurants</b>	<b>12.2</b>	<b>11.1</b>	<b>10.1</b>	<b>5.7</b>	<b>7.8</b>	<b>9.0</b>	<b>11.2#</b>
Trade	11.6	10.8	9.8	6.7	8.3	9.1	
Hotels & restaurants	17.4	14.4	13.0	-3.3	2.8	7.7	
<b>Transport, storage, &amp; communication</b>	<b>11.8</b>	<b>12.6</b>	<b>12.5</b>	<b>10.8</b>	<b>14.8</b>	<b>14.7</b>	
Railways	7.5	11.1	9.8	7.7	9.4	6.8	
Transport by other means	9.3	9.0	8.7	5.3	7.2	8.4	
Storage	4.7	10.9	3.4	14.1	8.7	7.9	
Communication	23.5	24.3	24.1	25.1	31.7	27.2	
<b>Financing, insurance, real estate, &amp; business services</b>	<b>12.6</b>	<b>14.0</b>	<b>12.0</b>	<b>12.0</b>	<b>9.4</b>	<b>10.4</b>	<b>9.1</b>
Banking & insurance	15.8	20.6	16.7	14.0	11.3	14.5	
Real estate, ownership of dwellings, & business services	10.6	9.5	8.4	10.4	7.8	6.9	
<b>Community, social, &amp; personal services</b>	<b>7.1</b>	<b>2.8</b>	<b>6.9</b>	<b>12.5</b>	<b>12.0</b>	<b>4.5</b>	<b>5.9</b>
Public administration & defence	4.3	1.9	7.6	19.8	18.2	1.3	
Other services	9.1	3.5	6.3	7.4	7.2	7.3	
<b>Construction</b>	<b>12.8</b>	<b>10.3</b>	<b>10.8</b>	<b>5.3</b>	<b>7.0</b>	<b>8.0</b>	<b>4.8</b>
<b>Total services (excluding construction)</b>	<b>10.9</b>	<b>10.1</b>	<b>10.3</b>	<b>10.0</b>	<b>10.5</b>	<b>9.3</b>	<b>9.4</b>
<b>Total services (including construction)</b>	<b>11.1</b>	<b>10.1</b>	<b>10.3</b>	<b>9.4</b>	<b>10.0</b>	<b>9.2</b>	<b>8.8</b>
<b>Total GDP</b>	<b>9.5</b>	<b>9.6</b>	<b>9.3</b>	<b>6.7</b>	<b>8.4</b>	<b>8.4</b>	<b>6.9</b>

Source: Computed from CSO data.

# includes the share of trade, hotels, & restaurants and transport, storage, & communication for 2011-12.

@ Provisional Estimates

\* Quick Estimates

\*\*Advance Estimates

Among 'other services' which have a share of around 8 per cent in India's GDP, education, medical and health, and personal services are the major items. Interestingly some items have high growth rates with small shares which are rising. These include coaching centers with above 18 per cent growth in the last five years and share in 'other services' rising from 4.9 per cent in 2005-06 to 8.4 per cent in 2010-11; recreation and entertainment services with a steady 9 per cent growth in the last five years and share in 'other services' increasing from 5.4 per cent in 2005-06 to 6.1 per cent in 2010-11; and custom tailoring with a steady 13 per cent growth in the last five years and share in 'others services' increasing from 3 per cent in 2005-06 to 4.1 per cent in 2010-11. The performance of the different services based on the different indicators shows that sectors like telecom, tourism, and railways have done well in 2011-12 (Table 2.4). The performance and outlook for the services sector based on limited firm-level data, though sketchy and based on estimates and forecasts, show a mixed picture for this and the coming year.

## 2.5 Performances of Some Major Services

The performances of other services are as follows:

### 2.5.1 Trade

The value of trade (inclusive of wholesale and retail in the organised and unorganised sectors) in India's GDP at constant prices has grown from ₹ 433,967 crore in 2004-05 to ₹ 742,621 crore in

**Notes**

2010-11, at a CAGR of 9.4 per cent. As per the CSO's QE, the growth rate in 2010-11 was 9.1 per cent. The share of trade in GDP has been slightly above 15 per cent in the last six years (15.4 per cent in 2010-11). With a high GDP growth in the last five years, and high growth in consuming population, the retail business is of late being hailed as one of the sunrise sectors in the economy. A. T. Kearney, an international management consultancy firm, has identified India as one of the topmost retail destinations. Since 2006, India has been allowing FDI in single brand retail to the extent of 51 per cent. In January 2012, the government removed restrictions on FDI in the single brand retail sector, allowing 100 per cent FDI.



*Caution* Trade is an important activity providing interface between the producer and consumer.

Allowing FDI in multi-brand retail is one of the major issues in this sector. This could begin in a phased manner in the metros, with the cap at a lower level coupled with incentivizing the existing 'mom and pop' stores (kirana shops) to modernize and compete effectively with the retail shops, foreign or domestic. While agricultural marketing could improve immensely with the growth of modern retail trade, the revenue to the government could also increase, as at present the retail sector is largely unorganized and has low tax compliance. The Inter-Ministerial Group (IMG) on Inflation of the Government of India has also recommended leveraging FDI in multi-brand retail as one of the means for addressing issues relating to high rates of food inflation and low prices realised by Indian farmers, developing a 'farm-to-fork' retail supply system, and addressing the investment gaps in post harvest infrastructure for agricultural produce.

### **2.5.2 Tourism, including Hotels and Restaurants**

Tourism is not only a growth engine but also an export growth engine and employment generator. The sector has capacity to create large-scale employment both direct and indirect, for diverse sections in society, from the most specialised to unskilled workforce. It provides 6-7 per cent of the world's total jobs directly and millions more indirectly through the multiplier effect as per the UN's World Tourism Organisation. Since tourism does not fall under a single heading in India's National Accounts Statistics, its contribution has to be estimated. Its contribution to GDP and employment in 2007-08 was 5.92 and 9.24 per cent respectively as per Tourist Satellite Account Data.

In India, the tourism sector has witnessed significant growth in recent years. During the period 2006 to 2011, the CAGRs of Foreign Tourist Arrivals (FTA) and Foreign Exchange Earnings (FEE) from tourism (in rupee terms) were 7.2 per cent and 14.7 per cent respectively. FTAs in India during 2010 were 5.78 million compared to 5.17 million during 2009, posting a growth of 11.8 per cent, much higher than the growth of 6.5 per cent for the world in 2010. FEEs from tourism in rupee terms during 2010 were ₹ 64,889 crore compared to ₹ 54,960 crore during 2009 with a growth rate of 18.1 per cent. Despite the slowdown and recessionary trends in the economies of Europe and America, FTAs during 2011 were 6.29 million with a growth of 8.9 per cent over 2010 and FEEs in 2011 were ₹ 77,591 crore with a growth of 19.6 per cent. In the case of outbound tourism, the number of Indian nationals' departures from India during 2010 was 12.99 million with a growth of 17.4 per cent for the year. Domestic tourism has also emerged as an important contributor to the sector providing much needed resilience. Domestic tourist visits during 2010 are estimated at 740.2 million, with a growth of 10.7 per cent. Hotels and restaurants is an important component of the tourism sector. As on 31 December 2011, there were 2,895 classified hotels having a capacity of 1,29,606 rooms in the country. Availability of good quality and affordable hotel rooms plays an important role in boosting the growth of tourism in the country.

The share of the hotel and restaurant sector in overall economy increased from 1.46 per cent in 2004-05 to 1.53 per cent in 2008-09 and then decreased to 1.46 per cent in 2010-11. However, if the contribution of this sector only in the service sector is considered, its share decreased from 2.75 per cent in 2004-05 to 2.64 per cent in 2010-11 as other service sectors grew faster than this sector. Its CAGR was 8.44 per cent during 2004-5 to 2009-10 and the growth rate in 2010-11 was 7.7 per cent. Health tourism, the new entrant in the sector, is a niche area where India has good potential.

**Table 2.5: Performance of India's Service Sector: Some Indicators**

Sector	Indicators	Unit	Period			
			2008-09	2009-10	2010-11	2011-12
Aviation	Airline passengers (domestic and international)	Million	49.5 (a)	54.5 (a)	64.5 (a)	59.3 (a)
Telecom	Telecom connections (wireline and wireless)	lakh	4297.25	6212.8	8463.2	9265.3 (b)
Tourism	Foreign tourist arrivals	Million	5.28 (a)	5.17 (a)	5.78 (a)	6.29 (a)
	Foreign exchange earnings from tourist arrivals	US \$ million	11832	11394(e)	14193 (e)	16564 (e)
Shipping	Gross tonnage of Indian shipping	Million GT	9.28	9.69	10.45	11.06(d)
	No. of ships	Numbers	925	1003	1071	1122(d)
Ports	Port traffic	Million tonnes	530.53	561.09	570.03	488.8 (c)
Railways	Freight traffic by railways	Million tonnes	833.31	887.99	832.75	704.81 (b)
	Net tonne kilometres of railways	Million	538226	584760	444515	466968 (b)
Storage	Storage capacity	Lakh MT	105.25	105.98	102.47	99.81(b)
	No. of warehouses	Numbers	499	487	479	469 (b)

**Sources:** Directorate General of Civil Aviation, Telecom Regulatory Authority of India, Ministry of Tourism, Ministry of Shipping, Ministry of Railways and Central Warehousing Corporation (compiled by EXIM Bank of India).

Note: GT is gross tonnage. (a) Calendar years, for example 2007-08 for 2007. (b) April-December. (c) April-January. (d) As on 1 January, 2012. (e) Advance estimates by the Ministry of Tourism.

As is natural, with the growth of this sector, components like air travel and hotel stay have been included under service tax. The Economic Survey 2010-11 has listed the major policy decisions taken in recent years. However, a lot more needs to be done to make India a major tourist destination. Some of the problem areas in this sector include the following. States impose luxury tax ranging from 5 per cent to 12.5 per cent. In some cases, the luxury tax is applicable on printed room rates whereas actual hotel rates offered to guests are much lower. With a view to rationalising luxury tax on hotels, the Government of India has requested the states to work towards rationality and uniformity of taxes so as to make their destinations more competitive. They have been also requested to exempt room tariff below ₹ 2,500 from luxury tax and charge luxury tax at a uniform rate of 4 per cent on actual tariff. Construction of hotels is primarily a private-sector activity which is capital intensive and has a long gestation period. A major constraint being faced by the hotel industry in addition to the high cost and limited availability of land is the procurement of multiple clearances/approvals required from central and state government agencies for hotel projects.

Varying from state to state, in some cases as many as 65 clearances/approvals are required for hotel projects. A Hospitality Development and Promotion Board have been set up at central level. The main function of the Board will be to monitor and facilitate clearances/approvals for hotel projects both at be a single window for receiving applications for various clearances, approving/clearing hotel projects in a time-bound manner, and reviewing hotel project policies to encourage the growth of hotel/hospitality infrastructure in the country. State governments have also been requested to set up similar boards under the Chairmanship of their Chief Secretaries. So far Mizoram, Manipur, and Maharashtra have set such boards. Other measures in this sector could include rationalising the fees for entry to monuments and using the fees for their maintenance; focusing on safety of tourists; and promoting wellness tourism.

### 2.5.3 Transport Related Services

There are some transport related services which are as follows:

#### Shipping

Shipping is an important indicator of both commodity and services trade of any country. It plays an important role in the Indian economy with around 95 per cent of the country's trade by volume and 68 per cent in terms of value being transported by sea. As on 1 January 2012, India had a fleet strength of 1,122 ships with Gross Tonnage (GT) of 11.06 million, the public-sector Shipping Corporation of India having the largest share of 36.17 per cent. Of this, 372 ships with 10.01 million GT cater to India's overseas trade and the rest to coastal trade. The gross foreign exchange earnings/savings of Indian ships in 2010-11 were ₹ 10,666.45 crore. Leaving aside the flag of convenience countries, the country with the highest dead weight tonnage (DWT) is Hong Kong. Though India has one of the largest merchant shipping fleets among developing countries, it is ranked eighteenth in the world in terms of DWT with a share of only 1.09 per cent as on 1 January 2011. In comparison, China is ranked ninth with a share of 3.78 per cent (Table 2.6). Indian vessels are also relatively older than the international average. As on December 2011, 44 per cent of the fleet was over 20 years of age and 12 per cent in the age group of 16-20 years. According to preliminary estimates by UNCTAD, at 8.94 million twenty foot Equivalent Units of Container (TEUs) in 2010, India was ranked eighth among developing countries in terms of container ship operation with a world share of 0.32 per cent. UNCTAD further classifies India (ranked 17th) as one of the top 20 economies for shipbuilding based on deliveries in the year 2010 (37 vessels of 136,000 DWT), though its share is only 0.11 per cent in the world. India is also one of the major nations undertaking ship-breaking service. In 2010, with a world share of 32.43 per cent, it topped the list of ship-scraping nations, scrapping 451 ships with 9.28 million DWT.

**Table 2.6: Share of Merchant Fleets by Flags of Registration as on January 2011**

Rank	Flag of Registration	DWT (In '000)	Share (%)
1	Panama	306032	21.93
2	Liberia	166246	11.91
3	Marshall Islands	98757	7.08
4	Hong Kong	91733	6.57
5	Greece	71420	5.12
6	Bahamas	67465	4.83
7	Singapore	67287	4.82
8	Malta	61294	4.39
9	China	52741	3.78
10	Cyprus	32321	2.32
11	Japan	22201	1.59
12	Republic of Korea	20155	1.44
13	Italy	19440	1.39
14	Isle of Man	19422	1.39
15	Norway	18065	1.29
16	Germany	17566	1.26
17	UK	16999	1.22
18	India	15278	1.09

*Source:* Based on United Nations Conference on Trade and Development (UNCTAD), Review of Maritime Transport, 2011

India is ranked 22nd in 2011 according to the UNCTAD liner shipping index, down from 21st position in 2004. The global shipping industry has been experiencing turbulent waters in the year 2011 due to the economic slowdown. Indian shipping companies faced problems of restricted



cash inflows in 2011-12 due to very low charter hire and freight rates in all segments of shipping. These difficult economic conditions have been prevailing since 2008 with small windows of relief in 2011-12. Most Indian shipping companies that have been able to better manage their businesses have been those with a diversified presence across shipping segments or businesses. While the bulkers and tankers segments have seen a downturn, the offshore segment with jack ups and sub-sea vessels has ensured cash visibility for companies. Further, the incidence of piracy has been of great concern to the government. The government has deployed naval vessels for assistance to merchant vessels in the piracy-affected areas. As on 17th February 2012, 27 Indian seafarers are in the custody of Somalian pirates. The government has been raising the issue of piracy and the need for more concerted international action at the meetings of the United Nations and the International Maritime Organization (IMO).

Notes



*Did u know?* India is also one of the major countries supplying seafarers. At third rank and with a 7.5 per cent share in 2010, it supplied 46,497 officers to the global shipping industry.

In order to provide the shipping industry a partial level playing field and make it competitive at international level, the government implemented certain policies in 2011 like giving a minimum depreciation of 3.34 per cent (assuming life of 30 years) to drilling rigs; granting exemption on 29 July 2011 to ships falling under Chapter 8901 from additional customs duty and excise duty provided a general license under section 406 of the Merchant Shipping Act 1958 is granted by the Director General shipping; and exemption from import duty for spares and capital goods required by ship owners in Budget 2011-12.

While India's overseas seaborne trade has been growing substantially over the years, from 224.62 million tonnes in 1999-2000 to 570 million tonnes in 2010-11, there has been sharp decline in the share of Indian ships in the carriage of India's overseas trade. From about 40 per cent in the late 1980s, this share has declined to 9 per cent in 2010-11 with an 18 per cent share in India's oil imports in 2009-10. Given the relatively low participation of Indian ships in India's trade and given the fact that Indian ships are ageing, with the average age of the Indian fleet increasing from 15 years in 1999 to 18.37 years in 2012, there is urgent need to increase the shipping fleet so that it is at least enough to meet India's trade volumes. Higher asset size of Indian shipping will not only lead to higher growth of the economy but also higher employment and high foreign exchange earnings/savings. The estimated freight bill of India in 2011-12, based on 7.5 per cent of the value of seaborne trade, total US\$ 57 billion and estimates show that a 5 per cent increase in tonnage could lead to a US\$ 6.3 billion saving/earning of foreign exchange. Strengthening the Indian fleets with adequate and cheap finance is important given the fact that ship prices which had peaked in the middle of 2007-08 are nearer to the lows seen in December 2009. Rationalising the multiple levies in the shipping sector could also help.

### Port Services

Ports are the vital link in the trade between nations. Continuous modernisations of ports and up gradation of port infrastructure are important to increase the productivity and efficiency of ports. The total capacity of Indian ports has reached approximately 1,160 million tonnes as on 1 January, 2012. During 2009-10 and 2010-11, traffic at major ports attained a growth of 5.67 per cent and 1.59 per cent respectively over the previous year. The American Association of Port Authorities ranks Shanghai at the top with regard to total cargo volume handled in 2009 relegating Singapore from its first position of 2008 to second position. Madras Port and the Jawaharlal Nehru Port Trust (JNPT) are ranked 55th and 56th in 2009 in terms of total cargo volume, up from 70th and 71st positions in 2008. As per the Shipping Statistics December 2011 of the Institute of Shipping Economics and Logistics, (Germany), Shanghai is at the top in terms of container traffic in 2010 followed by Singapore while the JNPT is ranked 25th. The average turnaround time at

**Notes**

major Indian ports worsened to 4.66 days during April-December 2011, from 3.41 days in 2004-05, and was relatively higher in some ports like Paradip, Kolkata, Vizag, Tuticorin, Mormugao Mumbai, and Kandla. The average output per ship berth-day was 10752 tonnes for all major ports, with 25782 tonnes per ship-berth-day for the JNPT, and 2765 tonnes for Kolkata port. With the average turnaround time in India already relatively high by international standards, the turnaround time of Singapore port being less than a day, what is cause for worry is the further rise in average turnaround time and average pre-berthing time though average output per ship-berth-day has increased in 2010-11 and April-September 2011 (Table 2.7).

**Table 2.7: Some Performance Indicators for Major Ports in India**

Year	Average Turnaround Time (days)	Average pre-Berthing Time (in hours)	Average Output per Ship Berth day (in tonnes)
2004-05	3.41	6.03	9371
2005-06	3.63	8.77	9543
2006-07	3.81	10.05	10010
2007-08	3.98	11.40	9440
2008-09	4.20	9.55	9669
2009-10	4.42	11.67	9215
2010-11	4.64	12.00	12429
2011-12 (Apr.-Dec.)	4.66	12.12	10752

Source: Update on Indian Port Sector (September 2011), Ministry of Shipping, Government of India.

Union Budget 2011-12 has increased the allocation of funds for infrastructure and enhanced the limit of tax free bonds for the ports sector up to ₹ 50 billion. The government is also making all round efforts to increase port capacity in the country through the development of additional berths at the major ports, mechanization, deepening of channels and harbours to receive bigger vessels, improved rail and road connectivity and by facilitating similar development at the non-major ports promoted by state governments. The biggest public-private partnership (PPP) project in the ports sector has been awarded recently in the JNPT, Mumbai; the biggest dredging project is also being taken up there. More transshipment of Indian EXIM containers is expected to take place at Indian ports, especially at the new International Container Transshipment Terminal at Cochin. Establishing one additional major port in each of the maritime states that is interested in providing support for such development is under consideration and a technical committee is evaluating proposals for new major ports received from the states of Andhra Pradesh, Gujarat, Karnataka and Kerala. The government has successfully implemented the Port Community System as part of a paperless regime for transaction of business at ports. However, there is a need to further strengthen this major artery of Indian trade. Better infrastructure is needed particularly for handling crude oil. Other issues include upgrading the facilities at existing ports with regard to cargo handling, stevedoring, pilot age services, bunker services, and warehousing facilities; increasing the drafts to facilitate transshipment of Indian cargo which otherwise takes place outside the country; and rationalising the different port charges to make them comparable with best practice levels.

**2.5.4 Storage Services**

Warehousing services are an integral part of both inbound and outbound logistics, as goods produced have to be stored in different geographical locations before shipping/dispatch as per

demand/order flows. In India, the most important component of warehousing is agricultural storage for agri produce, food grains, fertilizers, manure, etc. Other components include industrial warehousing for industrial goods, import cargo, and excisable cargo; inland container depots (ICDs)/container freight stations (CFSs) for facilitating import/export trade; and special warehouses for cold and temperature controlled storage. The warehousing sector also provides many ancillary services. The Central Warehousing Corporation (CWC) along with 17 State Warehousing Corporations (SWCs) provides scientific storage facilities for agricultural produce and implements and other notified commodities. Its commercial outreach coupled with social objectives has resulted in the CWC operating a large warehousing network across the country. As on 31 December 2011, it was operating 469 warehouses, with total storage capacity of 99.81 lakh MT and average utilization of 89 per cent. The number of warehouses is lower than the 479 as on 31 March, 2011 due to de-hiring of capacity. The CWC made an entry into operation of public-bonded warehouses in the late 1970s, when the Central Board of Excise and Customs identified it as a custodian for dutiable goods. The CWC has also diversified its business into CFSs/ICDs and also started container rail transportation from Loni (UP) to the JNPT. In 2010-11, it added capacity of 1.45 lakh MT with total capital outlay of ₹ 65 crores. At state level, 17 SWCs were operating a network of 1,624 warehouses with aggregate storage capacity of 230.10 lakh MT as on 1 December 2011.

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Major policy initiatives taken recently by the government include construction of godowns under the seven-year/10-year guarantee scheme of the Government of India; permission of up to 100 per cent FDI in the construction of warehousing infrastructure; construction of warehouses under the Grameen Bhandaran Yojana of the National Bank for Agriculture and Rural Development (NABARD) and the Rastriya Krishi Vikas Yojana; making the warehouse receipt fully negotiable; and construction of godowns under its Private Entrepreneurs Godown (PEG) scheme. The CWC has constructed godowns with 1.45 lakh MT capacities during the year 2010-11 and plans to construct additional capacity of 2.09 lakh MT during 2011-12. There is, however, need to further increase high quality storage capacity and the number of trained samplers/graders.

### **2.5.5 Communication Services**

The communication services can be:

#### **Telecom and Related Services**

Indian telecom has proved to be an international success story with the sector witnessing commendable growth over the past few years. The Indian telecom network is ranked as the second largest in the world, next only to China. The total number of telephones has increased from 206.83 million on 31 March 2007 to 926.53 million as on 31 December 2011. The growth in wireless connections has been phenomenal, reaching 893.84 million connections at the end of December 2011, taking their share to over 96 per cent of total telephones in the country. Tele-density, which is an important indicator of telecom penetration, has increased from 18.31 per cent in March 2007 to 76.86 per cent in December 2011. While urban tele-density as of December 2011 has reached a high level of 167.85 per cent, at 37.48 per cent rural tele-density is low, signifying the potential for further growth in rural areas. The liberal policy regime facilitated the growth of the sector and lowered the costs for consumers, though the recent court cases related to the telecom sector have dampened the mood. The sentiments in this sector could be lifted by further reforms which could include rationalisation of the multiple levies and taxes and using mobile services in the delivery of different social welfare schemes which can increase its rural penetration. The draft National Telecom Policy 2011 has similar objectives. Since the announcement of the Broadband Policy in 2004, several measures have been taken to promote broadband penetration in the country. As a result, there are 13.30 million broadband subscribers

**Notes**

as on 31 December 2011 and 19.69 million internet subscribers at the end of March 2011. However, broadband has lagged behind the growth of telephones in India. Special efforts are being made to increase the penetration of broadband, especially in rural and remote areas. The upcoming decade is likely to usher in an information era through Mobile Value Added Services (MVAS) and Broadband for All. The successfully concluded auction of the Broadband Wireless Access (BWA)/3G spectrum and National Optical Fiber Network will enhance wireless broadband penetration and help connect the remotest locations across India.

**Posts**

India Post has the largest postal network in the world with 154,866 post offices across the length and breadth of the country as of 31 March 2011. On an average, each post office serves 7,814 persons with coverage of approximately 21.23 sq. km. As many as 139,040 post offices are in rural areas, while 15,826 are in urban areas. In addition to its own network, the Department of Posts also serves through 1155 franchisee outlets in areas where it is not possible to open post offices. Government has launched Project Arrow in 2008 to transform the existing India Post infrastructure across the country by upgrading key postal operations such as mail delivery, remittance, and banking services. India Post is emerging as a one-stop shop for retail products and offers a single window facility for banking, money remittances, and other financial products. In addition, India Post has been given the responsibility of disbursing wages to beneficiaries of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) through 96,895 post offices. The postal network is also being used by other government departments/agencies to collect data like the rural consumer price index. The postal sector needs to keep pace with changing times as many of its services have become redundant with growth in technology and takeover by other players. Quick decisions and actions to stay abreast of the times including switching over to new activities and downsizing could release a lot of resources from this sector for use elsewhere.



*Note* Shipping is considered as an very significant indicator of trade of goods & services of a country

**2.5.6 Real Estate Services**

Housing is a basic need and provides economic and social security to the people. It is also an 'asset' that can have significant leveraging effect to support and supplement other means of income generation and poverty alleviation. It is an important employment-intensive sector. A host of vocations and professions like construction workers, builders, developers, engineers, valuers, property consultants, interior decorators, consultants, and plumbers derive their livelihood from housing either directly or indirectly. Estimates show that for every rupee that is invested in housing and construction, ₹ 0.78 gets added to GDP. Housing ranks fourth in terms of the multiplier effect on the economy and third amongst 14 major industries in terms of total linkage effect. The real estate industry has significant linkages (both direct and indirect) with nearly 300 sectors like cement, steel, paints, and building hardware which not only contribute to capital formation and generation of employment and income opportunities, but also catalyse and stimulate economic growth. Therefore, investment in housing and real estate activities can be considered a barometer of growth of the entire economy.

The GDP share of the real estate sector (including ownership of dwellings) along with business services was 10.6 per cent in 2010-11. After growing at 10.4 per cent in 2008-09, the rate of growth of this sector has decelerated to 7.8 per cent in 2009-10 and further to 6.9 per cent in 2010-11. Currently, about 5 per cent of India's GDP is contributed by the housing sector. With institutional

credit for housing investment growing at a CAGR of about 18 to 20 per cent per annum in the next three-five years, the housing sector's contribution to GDP is likely to increase to 6 per cent. While India is among the top countries in terms of housing and work space needs, it ranks 181st in construction permission processes according to the World Bank's Doing Business 2012 report. There are 34 procedures and the average time taken is 227 days. Some of the issues related to this sector include the hardening of interest rates and possible defaults; challenges associated with land acquisitions; high stamp duty; formalities and costs related to registration and mutation, some of which are unnecessary and superfluous; the Urban Land Ceiling Regulations Act (ULCRA) and existing lower floor area ratio in cities; and absence of a single window clearance system with standardization of bye-laws and processes. Recently, some of the urban local bodies (ULBs)/ development authorities, like the Municipal Corporations of Delhi and Indore have introduced online sanction for building plans and for issuing completion certificates, which is likely to reduce the approval time. Similar measures by other development authorities are needed.

### **2.5.7 Some Business Services**

#### **IT and ITeS**

The IT and IT enabled Services (ITeS) sector are giving India the image of a young and resilient global knowledge power. The IT-ITeS industry has four major sub-components: IT services, business process outsourcing (BPO), engineering services and research and development (R&D), and software products. As per the estimates of NASSCOM, India's IT and BPO sector (excluding hardware) revenues were US\$ 87.6 billion in 2011-12, generating direct employment for nearly 2.8 million persons and indirect employment of around 8.9 million. As a proportion of national GDP, IT and ITeS sector revenues have grown from 1.2 per cent in 1997-98 to an estimated 7.5 per cent in 2011-12. Software exports in 2011-12 are estimated at US\$69 billion compared to US\$59 billion in 2010-11. While exports continue to dominate the IT-ITeS industry and constitute about 78.4 per cent of total industry revenue, the CAGR of the domestic sector has also been high at 12.8 per cent compared to the 14.2 per cent for exports during the Eleventh Five Year Plan period. The growth rate of the domestic sector in 2010-11 was 20.6 per cent as compared to 18.8 per cent for the export sector; in 2011-12 it was 9.7 per cent for domestic sector and 16.4 per cent for export sector. In 2012-13, as per NASSCOM estimates, export revenues are expected to grow by 11-14 per cent and domestic revenues by 13-16 per cent. These estimates are a pointer to the possibilities of making further forays into the untapped domestic sector for IT and ITeS (Table 2.8). Consistent demand from the US, which increased its share in total exports of India's IT and ITeS services from 61.5 per cent to 62 per cent, characterized 2011-12.

Emerging markets of Asia Pacific and the rest of the world also contributed to overall growth. While the industry's vertical market mix is well balanced across several mature and emerging sectors, there was broad-based demand not only across traditional segments such as Banking, Financial Services, and Insurance (BFSI), but also new emerging verticals of retail, health care, media, and utilities. Sub-sector-wise in 2011-12, as per the provisional estimates of NASSCOM, in the export sector, IT services were the major component with a 58 per cent share and CAGR of 15.7 per cent for the Eleventh Plan period; followed by BPO with a 23.1 per cent share and 12.5 per cent CAGR; and software products/engineering with a 18.9 per cent share and 11.8 per cent CAGR. Indian IT service offerings have evolved from application development and maintenance to emerge as full service players providing testing and infrastructure services, consulting and system integration. The year also witnessed the next phase of BPO-sector evolution, characterised by greater breadth and depth of services, process re-engineering across the value chain, increased delivery of analytics and knowledge-based services through platforms, strong domestic market focus, and Small and Medium-sized Business (SMB) centric delivery models. In the engineering design and products development segments, there was increasing use of electronics, adoption of

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fuel efficiency norms, convergence of local markets, and use of localised products. Increasing confidence between customers and service providers successfully executing a variety of activities across low-medium-high complexity projects has led to increasingly larger sizes of projects being sourced from India.

In the domestic sector, the major component is IT services with 64.2 per cent share, followed by software products/engineering with 19.6 per cent share and BPO with 16.2 per cent share. The CAGRs of these sectors were 11.5 per cent, 13.6 per cent and 18.1 per cent respectively. Strong economic growth, rapid advancement in technology infrastructure, increasingly competitive Indian organisations, enhanced focus by the government and emergence of business models that help provide IT to new customer segments are the key drivers for increased technology adoption in India. The IT and ITeS sector is also a generator of skilled employment with direct employment expected to reach 2.8 million in 2011-12 compared to 2.5 million in 2010-11. Some of the challenges faced by the IT and ITeS sector include increasing competition from other countries with incentivised low costs, rising costs in India with wage-push inflation, increasing costs of relevant talent and skilled personnel, infrastructure constraints with over 90 per cent of total revenue generated from seven Tier-1 locations, risks like currency fluctuations and security, both physical and data related, and rising protectionist sentiments in key markets. Government has taken various initiatives to promote the growth of the IT-ITeS industry and has been a key catalyst for increased IT adoption – through sectors reforms that encourage IT acceptance, National e-Governance Plan (NeGP), and the Unique Identification Development Authority of India (UIDAI) programme that creates large-scale IT infrastructure and promotes corporate participation. The Draft National Policy on Information Technology 2011 focuses on deployment of Information Communication Technology (ICT) in all sectors of the economy and providing IT solutions to the world. The Policy emphasizes adoption of technology-enabled approaches to overcome developmental challenges in education, health, skill development, financial inclusion, employment generation, and governance so as to enhance efficiency across the board in the economy. It seeks to bring ICT within the reach of the whole of India while at the same time harnessing the immense human resource potential in the country to enable it to emerge as the global hub and destination for IT-ITeS Services by 2020.

**Table 2.8: Overall Growth Performance of the IT-ITeS Sector**

Year	Value (US\$ billion)					Growth rate (%) 2011-12	CAGR (%) 11th Five Year Plan
	2007-08	2008-09	2009-10	2010-11 (E)	2011-12 (P)		
Total IT BPO Services Revenue	52.1	59.9	64.0	76.3	87.6	14.8	13.9
Exports	40.4	47.1	49.7	59.0	68.7	16.4	14.2
Domestic	11.7	12.8	14.3	17.3	19.0	9.7	12.8

Source: NASSCOM.

Notes: P = Provisional; E = Estimated.

The NeGP was approved by the Government of India in May 2006 to make all government services accessible to the common man in his locality, through common service delivery outlets at affordable costs. The NeGP comprises Mission Mode Projects (MMPs) and core e-infrastructure. Significant progress has been made in laying down core e-infrastructure and in most of the MMPs. More than 97,000 Common Service Centers (CSCs) have been established across the country as web enabled service access points for making public services available to citizens on anytime, anywhere basis. Initiatives under the NeGP also include online services related to income tax, Ministry of Corporate Affairs (MCA) 21, passports, and central excise. The government has also initiated new e-Governance projects for education, health, public distribution system and postal services.

This will ensure the common man access to quality education, cost efficient and quality health care and postal services at affordable costs. The number of public services available to citizens in electronic mode will be expanded through the Electronic Delivery of Services (EDS) Bill, approved by the union cabinet on 20 December 2011. In order to leverage the rapid growth in penetration of mobile technology and connectivity and also to ensure accessibility to all services to the common man, public services under all e-Governance projects will be delivered through mobile devices like mobile phones and Aakash tablets. Further, basic banking services, i.e. cash withdrawal, cash deposit, balance inquiry, and transfer of money from one account to another, will be extended to every panchayat through the CSCs and money transfer facility to every village by December 2013, leveraging ICT and mobile technology. This will help make financial inclusion a reality with the help of IT.

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### **Accounting and Auditing Services**

As per the WTO data, in the US\$ 28.5 billion other business services exports by India in 2009, the share of legal, accounting, management, and public relations services was 16.2 per cent and in the US\$ 21.03 billion imports, their share was 26.2 per cent. Indian accounting firms are increasingly getting integrated and are providing associated services such as management consultancy, corporate finance, and advisory services in addition to their core business of accounting, auditing, and tax services. The accounting profession is structured in India as partnership with few partners or proprietorship concerns and mainly comprises Small and Medium Enterprises (SMEs). The existing regulations require firms practicing chartered accountancy to be registered with the Institute of Chartered Accountants of India (ICAI). Out of 48,000 chartered accountancy firms in India, there are only 2,043 that have five or more partners. The remaining is practicing as proprietary firms or in their individual names. The chartered accountancy profession in India has globally benchmarked its qualification and training standards and has entered into qualification-recognition arrangements with accounting bodies in the UK, Australia, Canada and Ireland. The export potential of India in accounting services could be tapped by such mutual recognition of qualifications. Tie-ups to overcome the weakness of small size of domestic accountancy firms could also help India's accountancy sector grow manifold.

### **R&D Services**

According to Battelle R&D magazine, gross expenditure on R&D (GERD) by India for 2012 was projected to be US\$ 41 billion in purchasing power parity terms, which works out to 0.8 per cent of GDP. This is low both in absolute terms and as a proportion of GDP compared to other countries. This is partly because the size of the R&D base and absorption capacity is not commensurate with requirements (Table 2.9). As per estimates in 2010-11, the sectors which attracted largest R&D expenditures were pharmaceuticals, electrical and non-electrical Table 2.9 Global R&D spending forecast machinery, transport equipment, electronics, and plastics. R&D intensity for the pharmaceuticals sector was much higher than that for other sectors. Although there have been substantial increases in growth rates of patents filed in India during the last decade, the share of patents filed for work in India through indigenous research is less than 20 per cent of the total. Policy readjustments to increase the number of full time equivalents (FTE) of R&D personnel are a key requirement for growth in R&D intensity. The FTE of R&D manpower is estimated at 14.23 lakh for China and 2.29 lakh for South Korea, as compared to 1.54 lakh for India. Expansion of FTEs to at least 2.50 lakh by the end of the Twelfth Plan could enable the country to reach the top six ranks in the global R&D landscape.

Though developed nations remain the leaders in innovation, there has been an increasing shift in R&D activities from developed to developing nations. Developing Asian nations, particularly China and India, are driving the growth of global R&D. Factors such as low cost, access to new markets, availability of knowledge-oriented manpower, favourable regulatory environment,

**Notes**

and fiscal benefits play a major role in driving R&D investments towards these countries. MNCs from developed nations look to expanding their R&D activities in these countries through collaborative projects in areas such as electronics and telecommunications, software development, hardware and product design and drug development. A White Paper on R&D prepared by consultancy firm Deloitte in July 2011 estimates that more than 300 MNCs have set up R&D centers in India. Service providers have outsourced R&D valued at about US\$ 3.5 billion, and MNC subsidiaries have off shored R&D valued at about US\$ 6.5 billion to India in 2009. As per the Global Competitiveness Report 2011-12 of the World Economic Forum, among BRICS nations India is ranked below China and Brazil in terms of capacity for innovation but above China in terms of the quality of scientific and research institutions and availability of scientists and engineers. But India lags China in terms of company spending in R&D, university–industry collaboration on R&D, and utility patents granted per million population (Table 2.9). This is because the share of the private sector in R&D is still low at 0.25 per cent of GDP compared to 1.2 to 2 per cent in many developed and emerging economies. For GERD to increase significantly, private-sector investment in R&D must be stepped up significantly over the Twelfth Plan period. Budget 2011-12 enhanced the weighted deduction on payments made to National laboratories/ universities and institutes of technology for scientific research from 175 per cent to 200 per cent.

**Table 2.9: R&D Services**

Region/ Country	2012	
	GERD in PPP terms (US\$ Billion)	R&D as per cent of GDP
USA	436.0	2.3
Asia	514.4	1.9
Japan	157.6	3.5
China	198.9	1.6
India	41.3	0.8
Europe	338.1	2.0
<b>World</b>	<b>1402.6</b>	<b>2.0</b>

Source: Battelle R&D magazine, December 2011.

**Legal Services**

India has an estimated 600,000 legal practitioners and is next only to the USA in terms of numbers. The service providers are individual lawyers and small or family-based firms. In India, the practice of law is governed by the Advocates Act of 1961. Under this Act, foreign law firms are not allowed to engage in practice of law in India. Many foreign legal firms have set up liaison offices (currently permitted under the law), while a few have established referral relationships with Indian firms. India is ranked 51, with a score of 4.3, in terms of judicial independence by the Global Competitiveness Report 2011-12. As regards efficiency of the legal framework in settling disputes, India is ranked 64, with a score of 3.7. India is ranked at 51st position when it comes to the efficiency of the legal framework in challenging regulations, with a score of 3.9. This shows that India needs to improve its ranking through legal and judicial reforms and speed up disposal of cases. Global recession has been putting pressure on companies to reduce costs and they are trying out various methods of outsourcing their non-core functions to low cost destinations. Outsourcing of legal services to low cost destinations like India is one such measure being taken by legal firms in developed countries, especially the USA and UK. The



legal systems in India, the USA, and UK are rooted in British common law, thus making Indian lawyers competent, without much additional training, to undertake standard legal work such as vetting of contracts, patent registrations, or reviewing of documents. Besides off shoring legal work to India saves about 80 per cent of the cost that may be incurred in a developed country like the USA. Some of the recent measures taken by the government are the following. Legal education is being imparted by 913 colleges (a large number privately administrated) and 14 National Law Schools/Universities established under State Acts. The major challenges in the field of legal education are curriculum, skills, attitudes and ethics required of legally trained persons, and dearth of quality law teachers. The National Knowledge Commission recommended establishing a separate body to regulate legal education and setting up Centres for Advanced Legal Studies and Research. The proposal for instituting an independent body, the National Council of Legal Education and Research, is under process. The proposal for setting up four Regional Centres for Advanced Legal Studies and Research to promote advanced research on various aspects of law and academic excellence through continuing legal education is also under process.



*Did u know?* Law is now acknowledged to be an instrument for social change. This realization in India is reflected in various legislations.

The National Litigation Policy was launched on 23 June 2010 to achieve the goal of the National Legal Mission to reduce average pendency time—from 15 to three years—and delays in courts. The state governments have also been urged to take appropriate steps to frame a State Litigation Policy. The National Legal Services Authority (NALSA) has been constituted under the Legal Services Authorities Act 1987 to monitor and evaluate implementation of legal aid programmes and lay down policies and principles for making legal services available under the Act. In every state, a State Legal Services Authority, and in every High Court, a High Court Legal Services Committee, have been constituted. District Legal Services Authorities and Taluk Legal Services Committees have been constituted in 596 Districts and 2,037 taluks in order to give effect to the policies and directions of NALSA, provide free legal services to the people, and conduct lok adalats in the states. From 1 April 2011 to 30 September 2011 more than 6, 95,000 persons have availed of legal aid services in the country. More than 25,000 of the beneficiaries were scheduled castes, about 11,500 scheduled tribes, 24,600 women, and 1,628 children. During this period 53,508 lok adalats were organized. These lok adalats settled more than 13, 75,000 cases. In about 39,900 motor vehicle claim cases, compensation to the tune of ₹ 420.12 crore has been awarded. There is need to quickly implement proposals related to commercial disputes and amendments in the Arbitration and Conciliation Act 1996 to make India a favourable destination for

**Table 2.10: R&D indicators of India and Other Select Countries**

Country	Capacity for innovation		Quality of scientific research institutions		Company spending on R&D		University – Industry collaboration on R&D		Availability of scientists and engineers		Utility patents granted/ million population	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Value	Rank
India	3.6	35	4.5	34	3.7	33	3.8	50	4.9	21	0.9	59
China	4.2	23	4.3	38	4.2	23	4.5	29	4.6	33	2.0	46
South Africa	3.5	46	4.7	30	3.6	36	4.6	26	3.4	111	2.3	42
Brazil	3.8	31	4.1	42	3.8	30	4.2	38	3.8	91	0.9	60
Russia	3.5	38	3.8	60	3.1	61	3.5	75	4.0	72	1.9	47
South Korea	4.3	20	4.8	25	4.8	11	4.7	25	4.9	23	240.6	5
USA	5.2	7	5.8	7	5.3	6	5.7	3	5.5	4	339.4	3
UK	4.8	13	6.1	3	4.7	12	5.8	2	5.1	14	69.5	20

Source: Global Competitiveness Report 2011-12, World Economics Forum.

**Notes**

international arbitration. Union Budget 2011-12 has expanded the scope of legal services for service tax to include services provided by business entities to individuals as well as representational and arbitration services by individuals to business entities. However, no tax is levied on services provided by individuals to other individuals.

### **2.5.8 Consultancy Services**

Consultancy services are emerging as one of the main business areas in India. The volume of revenue in the Indian consulting industry on conservative basis has been estimated at around US\$ 8.24 billion in 2010-11. Presently, it contributes to about 0.47 per cent of the GDP. The growth rates of the industry over the last few years have been extremely promising and revenue is projected to increase to US\$ 9.89 billion by 2012 at a growth rate of 20 per cent. Consulting service providers in India may be classified into five categories: individual consultants, consulting firms, R&D organisations, academic institutes and professional bodies. The client sectors to which consulting services are provided at present include agriculture and rural development, banking and financial services, construction, education, energy, environment, governance and public administration, health and demography, infrastructure, information technology, law and regulation, life sciences, manufacturing, management, science and technology, telecommunications, tourism, transport, urban development, and water management.

The consultancy services market can be broadly categorised into engineering and management consultancy. The Indian management consultancy market is still in its nascent stage, with high growth and large entry of players. The revenue size of the Indian management consultancy market on conservative basis was estimated at around US\$ 2.5 billion to US\$ 3 billion in 2010-11. Although it is still relatively small in revenue size as compared to the global management consultancy market, the Indian management consultancy industry has witnessed high growth partly due to the low base from which it picked up. As per the estimates available for 2006-07, it comprised around 2,500 individuals and 22,300 firms. The Indian engineering consultancy market which is a more developed market as compared to the management consultancy market is experiencing a boom, with many large-scale development projects driving its growth. The revenue size of the Indian engineering consultancy market on conservative basis was estimated to be around US\$ 5.5 billion to US\$ 6 billion in 2010-11. Although it is still relatively small as compared to the global engineering consultancy market, the Indian engineering consultancy industry has shown steady growth over the last few years. As per estimates available for 2006-07, it comprised around 7,000 individuals and 25,600 firms. India's emergence as one of the fastest growing consultancy markets in the world has been facilitated by the liberalisation of FDI policy, entry of many new players, high growth in most key sectors, and India being a low cost sourcing destination.

Though the growth of the Indian consulting industry has been robust in the last few years, there is need to address certain issues to position it on the world map as well as to increase its global market share. These include availability of experienced consulting professionals, improvement in quality, proper training and development, international experience for Indian consultants on consulting assignments, and market intelligence on consulting opportunities abroad. The government has taken certain initiatives to address these issues. These include the Marketing Development Assistance and Market Access Initiative Schemes by the Department of Commerce, Guidelines for Selection of Consultants by Ministry of Finance, and certain export-promotion initiatives taken by the Federation of Indian Export Organisations.

### **2.5.9 Construction Services**

The construction industry in India is an important indicator of growth and development as it creates investment opportunities and increases production capacity across various related sectors.

With a share of around 8.2 per cent, the construction industry has contributed an estimated ₹ 670,778 crore (at current prices) to national GDP at factor cost in 2011-12. While its growth rate (at constant prices) in 2010-11 was 8.0 per cent, in 2011-12 it decelerated to 4.8 per cent due to both external and domestic factors like the imminent recession in Europe, hardening of interest rates in India, and challenges associated with land acquisition in some places. The sector is labour intensive and, including indirect jobs, provides employment to around 33 million people. It is estimated that about 70 per cent of these are employed in the infrastructure segment and the remaining 30 per cent in the real estate segment. According to industry estimates, the industry is expected to generate additional employment of 47 million, with the total number of persons employed in the sector reaching 83 million persons by 2022. The sector is critical for enhancing the productive capacity of the overall economy as on average it accounts for more than half the investment required for setting up critical infrastructure like power projects, ports, railways, roads and bridges.

## Notes

Since the sector was given industry status in 2000, there have been more initiatives by the government to undertake projects on PPP basis. These initiatives have resulted in more private ownership of build-operate-transfer (BOT), build-operate- own-transfer (BOOT), and build-operate-lease-transfer (BOLT) projects. FDI up to 100 per cent under the automatic route is allowed in townships, housing, built-up infrastructure, and construction of development projects (which include housing, commercial premises, educational institutions, and recreational facilities). The construction sector is not handled by a single nodal government department. By their very nature, infrastructure construction projects are supervised by respective ministries at union and state levels while the real estate sector comes under not only the Ministry of Urban Development but also by urban development departments at state level and municipal authorities further down. The Planning Commission has taken initiatives in creating model engineering procurement-construction (EPC) and PPP contract documents. The Draft Public Procurement Bill 2011 is in the public domain for comments and discussion. The Bill aims at creating uniformity and introducing transparency in the bidding process. Union Budget 2011-12 allocated 23.3 per cent more funding to this sector. Meanwhile, authorities involved in infrastructure development have been allowed to issue tax-free bonds and restrictions on foreign institutions and investors wishing to purchase infrastructure-related bonds have been relaxed. To augment flow of funds into this sector, the government has also increased the FII limit for investment in corporate long-term infra bonds, created Infrastructure Debt Funds (IDFs), and introduced a take-out financing and credit enhancement scheme by the India Infrastructure Finance Company Limited (IIFCL). Recently the Government of India has decided to fast track clearances for eight mega infrastructure projects, including some in the crucial power sector, to arrest slowdown in growth and uplift business sentiment.

The construction sector is fragmented, with a handful of major companies involved in construction activities across all segments; medium-sized companies specialising in niche activities; and small and medium contractors who actually work on subcontract basis and carry out the work in the field. The sector has major linkages with the building materials industry since they account for sizeable share of construction costs (approximately 40 per cent to 50 per cent). With plans to enhance infrastructure investment to US \$ 1 trillion in the Twelfth Plan, the construction sector is all set to become one of the growth engines of the Indian economy in the foreseeable future. Government's initiatives to develop mass rapid transport systems (MRTS) in cities with 20 lakh population will also boost the demand for construction activities. The potential of the construction sector is very high in urban infrastructure, particularly MRTS and water management. Starting of new projects like dedicated freight corridors in railways and construction of airports in Tier-II and Tier-III cities, clearing pending projects in ports, and development of real estate in urban infrastructure will also generate sizeable opportunities for the construction sector. Some other issues in this sector that need to be resolved include the need for setting up consortiums to bid effectively for international projects, credit-related issues, and

**Notes**

the issue of pre-condition in most of the overseas tenders floated by clients wherein equipment to be supplied by the contracting company has necessarily to be sourced from an approved list of suppliers from developed countries.

**2.5.10 Social Services**

Some social services include:

**Sports**

Apart from being a means of entertainment, physical fitness, and development of human personality, sports have also played an important role in national identity, community bonding and international bonding. Sports being highly competitive, the use of modern infrastructure and equipment and advanced scientific support has changed the scenario at international level. In view of this, the Government of India has taken several initiatives to help sportspersons with scientific and equipment support as well as providing them training and exposure in international competitions. The first National Sports Policy was unveiled in 1984 with the objective of developing an organized and systematic framework for the development and promotion of sports in the country. In 2001 another version of the Sports Policy, with the twin planks of 'broad-basing' of sports and 'achieving excellence' at national and international levels was introduced. Though sports is a state subject under the Seventh Schedule of the Constitution of India, the central government supplements the efforts of states in the task of promotion and development of sports. Several schemes have been announced by the Government of India aiming at promotion of drug-free sports, sports infrastructure development separately for urban and rural India, promotion of excellence in sports, incentives to sportspersons, assistance to sports-support institutions, and promotion of sports among persons with disabilities.

Indian athletes put up a commendable and impressive performance at the Commonwealth Games 2010 and Asian Games 2010. With a view to preparing athletes and teams for the London Olympics 2012, the government has launched Operation Excellence for London Olympics 2012 (OPEX 2012). OPEX 2012 identifies core areas for providing comprehensive and intensive training, both within the country and abroad, as well as competition exposure in international sports events. Funds for preparation of athletes for the London Olympics are being provided at Commonwealth Games 2010 scales, with up-scaling in certain areas such as lodging, nutrition, scientific support, and daily allowance. The budget for OPEX London 2012 is at ₹ 258.39 crore. There is need to step up allocation for youth affairs and sports as at present it is less than 0.50 per cent of state Plan and between 0.16 and 0.72 per cent of central Plan allocations.

**Cultural Services**

This section includes 'recreation and entertainment' and 'radio and TV broadcasting' (National Accounts classification) besides other related cultural services. Cultural activities are becoming increasingly important in the modern post-industrial knowledge-based economy. World over, they have been recognised as an important component of growth and job creation as well as a vehicle of cultural identity. Cultural life has become an economically viable private and public service activity as well as social integrator. There is growing positive correlation between culture and employment. A large number of people are getting viable employment by engaging in cultural activities as writers, publishers, librarians, photographers, sculptors, painters, musicians, singers, choreographers, dancers and actors. Cultural activities also support other economic activities, cultural tourism being one such example. A major chunk of tourism in India, national and international, can be classified as cultural tourism because it is geared to monuments, museums, archaeological sites, and cultural heritage including traditional fairs and festivals. To meet the objective of preserving and promoting all forms of art and culture, a

variety of activities are being undertaken by the Government of India, ranging from protecting and encouraging cultural endeavors at grassroots level to promoting cultural exchanges internationally; from programmes to preserve India's ancient heritage to encouraging an array of contemporary creative arts.

**Notes**

A network of 41 organisations is functioning under the Ministry of Culture, for protection, development, and promotion of tangible heritage, intangible heritage, and knowledge heritage. There are also a large number of schemes and programmes to extend financial support to individuals, group of individuals, and cultural organisations engaged in performing, visual, and literary arts. A total allocation of 3,555 crore was made to this sector in the Eleventh Plan period.

Creative industry includes cultural heritage; printed matter and literature; music and performing arts; visual arts; audio-visual media including cinema, television, radio and photography, and socio-cultural activities; museum and archives. Trade in creative industry can be broadly classified into goods and services. According to UNCTAD, world exports of creative industry goods in 2010 are estimated at US\$ 383 billion, growing at a CAGR of 8.6 per cent since 2002. India is ranked eighth largest exporter of creative goods, with a 3.6 per cent share of world creative goods exports. In absolute terms, India exported US\$ 13.8 billion worth of creative goods in 2010, with a CAGR of 17.7 per cent, much higher than the world average. UNCTAD estimated world exports of creative services in 2010 at US\$ 176 billion, growing at a CAGR of 15.4 per cent. India is ranked 13th with a 2.3 per cent share in world exports of creative services. India exported US\$ 4 billion worth of creative services in 2010, at a CAGR of 26 per cent.

According to a report by Ernst and Young, the Indian media and entertainment industry is valued at US\$ 16.3 billion in 2010 and is projected to grow at a CAGR of 12 per cent in the next four years (2011-14) to reach a value of US\$ 26 billion. The Indian media and entertainment services industry comprises visual entertainment services (broadcasting and cable television, films) printing (newspapers, books, periodicals), and audio entertainment services (radio, music). In addition, internet services also deliver such content through networks. The rapid convergence of networks, devices, and content is expected to dramatically alter the dynamics of the Indian media and entertainment industry. India is estimated to have more than 700 television channels and 100 million pay-TV households. The television distribution sub-segment is dominated by highly fragmented analogue cable which includes about 60,000 local cable operators and 100 multi-system operators. The Cable Television Networks (Regulation) Amendment Act 2011 has put in place a legal framework to facilitate digitalisation. Four metros will go digital in cable television by 30 June 2012, with the rest of the country following suit by 31 December 2014. The digitalization will redefine broadcasting and bring benefits to all stakeholders.

For the regulation of content in case of general entertainment channels, a self-regulating mechanism has been put in place by the broadcasters in consultation with the Government of India and a Broadcast Content Complaints Council has been made operational from 1 July 2011. There are 245 private FM radio stations, along with the government controlled All India Radio, operating in 237 radio stations. FM Radio was opened to private sector in 1999, with the announcement of FM Phase-I policy. Phase-II was announced in 2005. So far 86 cities of India are covered under private FM stations. In the third phase, the Government has taken a decision to e-auction 839 FM channels spread over 245 cities across the country. This would usher in a new era of infotainment for people besides introducing new vistas of opportunities for employment and income for the people. In the music sub-segment, film music accounts for two-third of sales across India. The large mobile subscription base of India is also contributing to the growth opportunities of the music and radio sub-segment.

With the production of over 1,000 films a year, in over 20 languages, the Indian film industry is the largest in the world. The film industry is also contributing to outsourcing of services such as animation, visual effects, conversion of 3D, and post-production services, to the ICT sector, thus

**Notes**

contributing to its growth. The Indian film industry is also generating additional revenue through collaboration with the ICT sector, such as DVDs, music CDs, mobile downloads, and online gaming. High rates of entertainment tax and lack of uniformity in tax structure across states are major factors inhibiting growth of the film industry. Adoption of the goods and services tax (GST), subsuming service tax and entertainment tax, could promote growth of the film industry. Piracy is another challenge for the Indian film sector. To make it relevant to present day requirements and to check piracy, the Ministry of Information and Broadcasting is in the process of amending the Cinematograph Act 1952. India has also signed co-production agreements with six countries with a view to pooling their creative, artistic, technical, financial, and marketing resources for co-production of films and television programmes. During 2011-12, the Ministry has accorded 20 foreign production houses shooting permission. Given the potential of this sunrise sector in India's growth and trade in services, efforts are needed to relocate the business of the Indian film Industry from foreign countries to India by addressing issues like tax credit which can increase activities in India and also generate employment.

In the publishing sub-segment, India has about 77,384 newspapers/magazines (registered) in circulation in 23 scheduled languages (including English) and several other non scheduled languages. The low readership penetration (around 30 per cent) as compared to a literacy level of over 75 per cent underscores the potential for growth. About 42 per cent of advertising money spent in the country is through the print media. The penetration of internet services is also contributing to online news consumption in India. In the print media sector, foreign investment up to 100 per cent is allowed in the non-news, i.e. the specialty/technical/scientific sector of the print media, whereas up to 26 per cent is allowed in the Indian entities publishing newspapers and periodicals dealing with news and current affairs. Foreign investment up to 100 per cent is allowed in case of foreign publishing houses bringing out facsimile editions of their own newspapers through wholly owned subsidiary.

**Self Assessment**

Fill in the blanks:

6. The "Four P's" of marketing: .....
7. A ..... company is one that can create a single product and only have to tweak elements for different markets.
8. The "expected" sales of a given type of product in a country minus the actual sales .....
9. .... is the response of the organisation to the realities of shareholders and the business environment.
10. The ..... services market can be broadly categorized into engineering and management consultancy.

**2.6 Challenges and Outlook**

India's services sector has been resilient even during the tumultuous years of the global economic crisis maintaining a steady growth of around 10 per cent. This happened even when overall GDP growth dipped sharply to 6.7 per cent in 2008-09.

**2.6.1 Outlook**

A dissection of the growth rates of different services shows that this resilience was, to some degree, due to the government's policies of higher social expenditure and commitments for pay

arrears under the new revised scale for government employees resulting in very high growth rates of 12.5 per cent and 12.0 per cent in community, social, and personal services in 2008-09 and 2009-10. Public administration and defence grew at a spectacular 19.8 per cent and 18.2 per cent in these two years compared to 1.9 per cent and 7.6 per cent in 2006-07 and 2007-08 respectively. The impact of the global crisis was, however, evident in the trade, hotels, and restaurants and construction categories and with lagged effect in real estate/ownership of dwellings and business services in 2008-09 and 2009-10; and to some extent in banking and insurance in 2009-10. Moving forward in 2011-12, though there is slight moderation in services growth to 9.4 per cent (as also in 2010-11), there is no cause for worry, as it is due to the steep fall in growth of public administration and defence services reflecting fiscal consolidation of the government. In fact growth in 'trade, hotels and restaurants, transport, storage and communication' is more robust at 11.2 per cent and retail-sector growth is expected to be more robust in 2012-13. With hardening of interest rates, the real worry would be with the real estate/ownership of dwellings and business services segment, the growth of which has started decelerating and construction services with growth falling by nearly half.

The outlook of the services sector in the domestic economy is linked to the prospects of the sector externally. While software service exports have continued to be steady, the unfolding events in the euro area could lead to some sluggishness in this sector. The fair-weather business services exports which have already shown signs of deceleration may not get better. Among the other two major services, transportation has already been affected with the Baltic Dry Index at an all-time low, although this may be a passing phenomenon. While travel and tourism could also be affected when the pockets of euro zone tourists are affected, it could also lead to a shift in tourist inflow pattern with increased inflow of holiday backpackers searching for cheaper destinations like India. Rise in tourists from South Asia, East Asia, and South East Asia could further help this sector. While the net effect of the trade sector on GDP has always been negative for India, it could go down further if less cushion is provided by net services trade to GDP. However, the domestic economy is more dominant in the case of services and any changes in government spending in community, social, and personal services within the fiscal space available or newly created fiscal space could strengthen the growth prospects of the services sector with ripple effects in related sectors.



*Task* Discuss the importance of services in Indian Economy.

### 2.6.2 Challenges

This dominant sector in terms of both shares and growth is a growth engine not only for the national economy but also for many states. It is second only to agriculture in terms of employment both in the national economy and in the majority of states. Unlike the unskilled or semi-skilled nature of jobs in the agriculture sector, this sector provides myriad job opportunities ranging from highly skilled to unskilled in a variety of activities. Hence, services along with a revival in manufacturing activity, can be major drivers of overall employment. Unlike the merchandise sector, the services sector is a net foreign exchange earner with exports of some services growing exponentially. It is also the major FDI-attracting sector with the five services topping the list of sectors attracting FDI to the country. Thus India's services sector is like an uncharted sea with plenty of opportunities and also new challenges. The first challenge is to not only maintain the present growth tempo in the service sector but also to accelerate it. This task, though difficult, is not impossible as we have tapped only some service sectors like software and telecom that too only partially. In fact, every important service sector is a storehouse of opportunity. Even in software and telecom, there is a lot of untapped potential in the domestic economy. The software-telecom combination can be a high growth propelling force for many more years to come with

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positive spillovers to other sectors and can give a cutting edge in these sectors while facing international competition.

This combination along with retail trade can change the very face of the rural economy. The tourism sector which is an industry in itself is another mine of opportunity for India. While there has been a lot of hype about the potential of this sector, efforts are needed to make it a reality. Shipping is another major service which can step up growth by tapping the opportunities provided by India's own merchandise trade. At present Indian ships cater to only 9 per cent of India's overseas trade which is abysmally low by any standards. Huge investment and modernization are needed in this sector to capture at least a substantial portion of India's present, if not potential, trade. Port services where countries like Sri Lanka plan on the basis of future cargo from other countries like India is another area needing urgent attention. A business service which consists of many dynamic services is a sunrise sector. Financial services, health care, and education are other niche areas with both external potential and internal opportunities which can be tailor-made to serve the objective of more inclusive development.

The second challenge is to make some of the fair-weather services like business and financial services more stable and less vulnerable to external shocks. While these sectors cannot be fully insulated from external shocks in this highly globalised world, efforts are needed to make them at least as stable as software and telecom services. This can be done by both piggybacking on the progress of the software and telecom sectors and also making inroads in the domestic economy where opportunities are aplenty. This brings us to the third challenge of domestic regulations in most of these sectors. While in the WTO, India has been at the forefront of negotiations for removal of such regulations in other countries, we also have to take a lead in making regulatory improvements domestically as such regulations could come in the way of further growth of the services sector. Addressing data problems in the services sector is another area where there is need for early consolidation of isolated efforts. Addressing the challenges of the diverse sub-sectors of the services sector by better and coordinated strategies can lead to exponential gains for the economy.

**Self Assessment**

Multiple Choice Questions:

11. Which of the following is an example of a business to business (KIBS)?
  - (a) Internal IT help-desk services
  - (b) Web design and hosting
  - (c) Leisure services
  - (d) Hotels
12. According to Johnson & Clark (2005) Information and communication technologies (ICT) have contributed to the development of new services by
  - (a) Decreasing unit costs and increasing volumes per unit
  - (b) Developing capabilities and developing commodity services
  - (c) Reducing complexity and thereby improving capability
  - (d) All of the above
13. Services have characteristics which distinguish them from physical products such as:
  - (a) Services are homogenous
  - (b) Services are co-produced by the consumer



- (c) Services are tangible
- (d) None of the above
14. Within the new service development process which of the following is part of the realisation stage?
- (a) Business analysis
- (b) Formulation of new service strategy
- (c) Concept development
- (d) Service design and testing
15. Johnson et al. (2000) argue that new service development should be viewed as a cycle. What are the four key pieces at the centre of the cycle?
- (a) People-product-systems-service
- (b) Technology-product-systems-quality
- (c) Technology-people-systems-service
- (d) People-product-systems-technology



Case Study

### Case: Kaya Skin Clinic – Redefining Beauty

It is truly said that a journey of million miles begins with a single step! And so it was with Kaya skin clinics, a pioneering concept from the stables of Marico, one of the most innovative FMCG companies on the Indian landscape. A single clinic, started as a prototype in Bandra in December 2002, Kaya has grown at an unprecedented pace. Today, it has 81 clinics strong in India across 26 cities, 14 clinics in the Middle East and 2 clinics in Bangladesh, with miles to go in terms of the future....an exhilarating journey indeed!

Want a makeover? Or just a rejuvenating experience? Or a bridal feel good factor? At Kaya, you shall find everything just customised according to your needs. As their tagline defines them 'let your skin talk—they have proved every word of it and defined their brand image meticulously.

The ambience at Kaya Skin Clinic is warm enough to make you feel that a customer is always highly valued. They will instill all the components of confidence in you by taking care of your skin, making you feel uplifted from outside as well as inside. Soft, youthful and glowing skin is what they are bound to offer you with their seamless service capability.

#### **Services at Kaya Skin Clinic**

1. **Skin Beauty:** The skin beauty is very much essential to exhibit the glow in the appearance. We all are definitely born with a beautiful skin but with every passing day, the beauty of the skin needs to be maintained as there are external factors like pollution, seasonal and climatic changes as well as internal stress which diminishes the shine.
2. **Skin Concerns:** Kaya Skin Clinic caters to various skin concerns like pimples or acne, dark patches or pigmentation.
3. **Hair Free:** At Kaya, they have the Kaya Permanent Hair Reduction Treatment which gets you out of painful experiences like waxing, threading.

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4. **Bridal Glow Packages:** Marriage day for any girl is the most special day of her life, and she definitely wants to look splendidly beautiful on that special day. Kaya Skin Clinics understands that emotion and have created bridal packages taking into consideration; her needs and wants for a beautiful and glowing skin. And doctors will be there to assist you in determining your skin type so that nothing goes wrong in making your skin flawless.
5. **Botox shots:** The very recent addition in their services is the botox shots which are of the highest quality. The botox is used for the reinstatement of your original beauty. This method is highly sought after, for the consumers have got the ultimate satisfactory results.

Your skin requires nourishment, so that it remains youthful and radiant looking and this will be only achieved after you have visited one of the Kaya Skin Clinics at least once.

You can first consult your dermatologist for further guidance. But Kaya will definitely provide you with the best of services. With regular visits to the Kaya Skin Clinics your skin will be well toned, and beautiful. Your skin will definitely make heads turn, whether you are on the road or at the party.

Kaya also offers a range of skin care products like Soothing Cleansing Gel, Revitalising Tonic Daify, Moisturising Sunscreen, Anytime Moisturising Cream Body gel, Cleanser, Nourishing Day Cream, Sensitive Skin Cleanser, Sensitive Skin Moisturizer, Early Defence Cream, Under Eye Gel, Kaya Pimple Free Cream and many more.

#### **The Philosophy**

The philosophy at Kaya is governed by the single value of placing the customer first at all times. Kaya is all about personal confidence through expert skin care which seamlessly blends looking good with feeling good about our inner and outer selves at all times. The emphasis therefore, is on highly customised and personalised services most suited for Indian skin provided in a state of the art clinic with Zen like ambience.

Be it the service provided by the staff, the consultation by the dermatologists, the service by the skin practitioners or even the Kaya drink, you, the customer is at the centre of it all. You will experience personalised expert skin care administered with warmth at all our touch points.

In the course of our journey so far, their interactions with the customers have been instrumental in bagging several awards for service delivery. They also have the largest team of dermatologists constantly striving to deliver the best of the skin care services, customised to Indian skin. In India, when the customers think skin, they think Kaya!

Kaya has a strong orientation in processes and systems. For an organisation still nascent, they have bagged several awards for service delivery and the quest for excellence is continuous. Their clinics are a synergy of energy and expertise, where going the extra mile for the client is second nature. And today, in the arena of Skin Care they take great pride in positioning themselves as the number one player. "Where Vision and foresight meet care and in talent invest" ...to be the BEST.

#### **Values**

Their values form the cornerstone of every organisational decision taken at Kaya. They are not mere words but values in action to which Kaya is deeply committed.

**Customer First:** Spirit of Partnership – Keeping the consumer in focus, partnering to deliver skin care solutions. Doing what is in the best interest of the customer, business interest will follow.

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**Openness:** Allowing diversity of opinion by listening to members without bias. Sharing information both good and bad and having a sense of trust and respect for each other.

**Ownership:** 'My Kaya' mindset. What would I do if I were the owner of the business? Displaying seamless behaviour across the organisation rather than drawing boundaries of functions/grades when it is necessary in the interest of organisation.

**Question:**

Why do you think Kaya is a success, especially in a country where there was previously no trend of visiting skin clinics for beauty treatments?

**Source:** [www.kayaskinclinic.com/](http://www.kayaskinclinic.com/) [www.beautytipshub.com](http://www.beautytipshub.com)

## 2.7 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- 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.
- The development of global marketing has been brought about by a number of variables both exogenous and endogenous.
- The evolution of global marketing has been in a series of four stages from exporting to truly global operations.
- These stages have been termed “domestic” in focus to “ethnocentric”, “polycentric” and “geocentric”.
- When planning to do global marketing, a number of “environmental” factors have to be considered but generally one is looking for “unifying” or “differentiating” influences which will dictate a “standard or “adapted” planning approach.
- Finally, a number of concepts and techniques, including the International Product Life Cycle, can give insight and a guide to global planning.

## 2.8 Keywords

**Hybrid:** A typical marketing offer where the tangible goods and service are almost equal weightage by the consumers.

**Pure Service:** Where consumers confine themselves to valuing only the service they receive.

**Intermediaries:** Domestic based export merchants, domestic based export agents, export management companies or cooperative organisations.

**Global Company:** One that can create a single product and only have to tweak elements for different markets.

**Pricing Policy:** The price must be high enough to guarantee the flow of funds required to carry on other activities (beyond the direct production of the export item), such as R&D and distribution.

**Branding:** Is the domestic brand useful in the export market.

## 2.9 Review Questions

1. What are the elements of global marketing mix?
2. Explain briefly advantages and disadvantages of global marketing services.

**Notes**

3. What is the principal driving force in global marketing of services?
4. How the face of service industry changes in India?
5. Compare different industries in term of growth and GDP earn with service industry.
6. "Services are now an integral part of any economy's infrastructure and have become indispensable to urban life." Substantiate with suitable examples.
7. Suppose you are the marketing head of a chain of discothèques. What measures will you take to add an element of tangibility to your service?
8. "The customer's service encounters are different every time". Comment.
9. Suggest ways to overcome the problem of standardisation in a multi-cuisine restaurant.
10. Compare and Contrast service and product marketing. Give examples.
11. Market has variety of offers ranging from pure goods to pure services. In light of this statement explain the product-service continuum.

**Answers: Self Assessment**

- |             |   |
|-------------|---|
| 1. True     | 2. True                                     |
| 3. True     | 4. True                                     |
| 5. True     | 6. Product, price, placement, and promotion |
| 7. Global   | 8. Usage gap                                |
| 9. Strategy | 10. Consultancy                             |
| 11. (b)     | 12. (a)                                     |
| 13. (b)     | 14. (c)                                     |
| 15. (d)     |   |

**2.10 Further Readings**



*Books*

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US  
Leonard L Berry, *Great Service: A Framework for Action*, The Free Press  
Ravi Shanker, *Services Marketing*, Excel Books, New Delhi  
Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi



*Online links*

[www.marketingteacher.com/.../lesson\\_services\\_marketing](http://www.marketingteacher.com/.../lesson_services_marketing)  
[www.online-pr.com/Holding/ServiceMarketingSecret](http://www.online-pr.com/Holding/ServiceMarketingSecret)  
<http://dis.shef.ac.uk/sheila/marketing/services.htm>  
<http://www.mba-tutorials.com/marketing/165-products-vs-services.html>

## Unit 3: Nature/Characteristics of Services

Notes

### CONTENTS

Objectives

Introduction

3.1 Types of Services

3.2 Nature/Characteristics of Services

3.3 Summary

3.4 Keywords

3.5 Review Questions

3.6 Further Readings

### Objectives

After studying this unit, you will be able to:

- Describe the nature or characteristics of services
- Describe the various types of services

### Introduction

Information scientists are often providing services (e.g. advice, or searches), rather than physically distinct products. Marketing experts acknowledge that marketing a service is more difficult than marketing a tangible product. They identify the following as being characteristic of services:

- **Intangibility** the service cannot be touched or viewed, so it is difficult for clients to tell in advance what they will be getting;
- **Inseparability** of production and consumption the service is being produced at the same time that the client is receiving it (e.g. during an online search, or a legal consultation);
- **Perishability**: unused capacity cannot be stored for future use. For example, spare seats on one aeroplane cannot be transferred to the next flight, and query-free times at the reference desk cannot be saved up until there is a busy period.
- **Heterogeneity (or variability)**: services involve people, and people are all different. There is a strong possibility that the same enquiry would be answered slightly differently by different people (or even by the same person at different times). It is important to minimise the differences in performance (through training, standard-setting and quality assurance).
- **Non-ownership**: The final distinguishing feature of a service is that, unlike a physical product, the consumer does not secure ownership of the service. Rather the customer pays only to secure access to or use of the service. Again the hotel room is a good example. Similarly, with banking services, although the customer may be given a Cheque book, credit cards, etc. they serve only to allow the customer to make use of what he or she is actually buying, namely, bank services.

People often try to overcome some of these difficulties by ensuring that the physical manifestations of the service (the people running it, the library building, printed search results, web pages, etc.) indicate the quality of the service. The people running the service are more likely to inspire confidence in the service if they are responsive, reliable, courteous and competent.

Notes



*Note* If the information centre looks shabby and disorganised, or if the website is difficult to navigate with broken links, then users may assume that the services provided by the centre are slapdash.

### 3.1 Types of Services

As our knowledge of the characteristics of services grows, so does our ability to deal with them from both an economic and marketing perspective. Services are intangible, inseparable, variable, and perishable. Each characteristic poses problems and requires strategies to deal with those problems.

**Core Services:** A service that is the primary purpose of the transaction. For example a haircut or the services of lawyer or teacher

**Supplementary Services:** Services that are rendered as a corollary to the sale of a tangible product. E.g.: Home delivery options offered by restaurants above a minimum bill value.

#### 3.1.1 Difference between Goods and Services

Given below are the fundamental differences between physical goods and services:

**Table 3.1: Difference between Goods and Services**

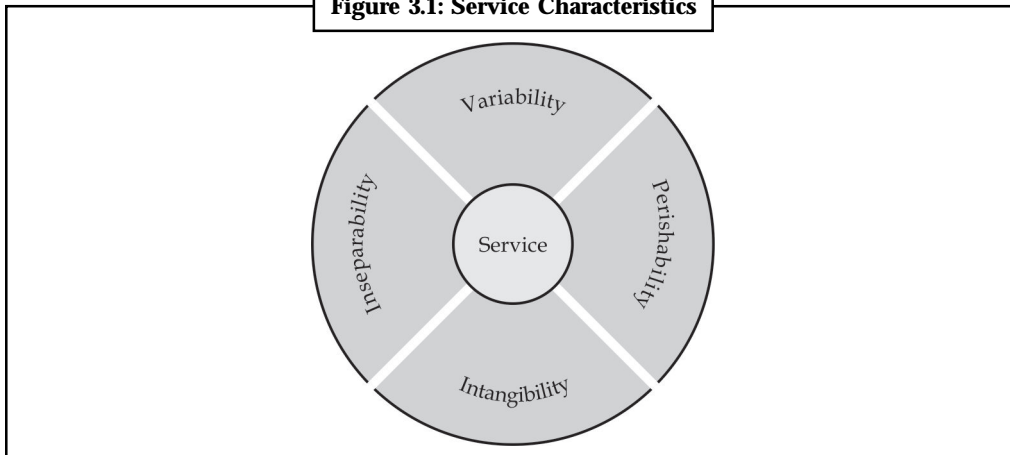
Goods	Services
A physical commodity	A process or activity
Tangible	Intangible
Homogenous	Heterogeneous
Production and distribution are separation from their consumption	Production, distribution and consumption are simultaneous processes
Can be stored	Cannot be stored
Transfer of ownership is possible	Transfer of ownership is not possible

### 3.2 Nature/Characteristics of Services

“You cannot market a bank account by applying same rules that are used for the marketing of a can of Campbell’s soup”. This logic resembles the statement that apples are just like oranges except for their ‘appleness’” (Shostack, 1977).

Unified Services Theory “With service processes, the customer provides significant inputs to the production process. With manufacturing processes, groups of customers may contribute ideas to the design of the product, but individual customers’ only participation is to select and consume the output. All managerial themes unique to services are founded in this distinction” Sampson (2001). Service processes are distinguished from non-service processes only by the presence of customer inputs and implications thereof. For those familiar with business management in general, understanding those additional issues unique to managing services requires only understanding the implications of customer inputs. Customer inputs are the root cause of the unique issues and challenges of services management. Sampson and Froehle (2006).

Figure 3.1: Service Characteristics



Source: <http://nceffacilityops.com/wpimages/wp9108a739.jpg>

### 3.2.1 Intangibility

How can a marketer overcome the drawback of intangibility? Fortunately for him, there are ways and means to overcome this particular unique characteristic of the service industry. The marketer will remember that intangibility prevents the consumer from having the benefit of the touch, see and feel factor. This makes it difficult for him to comprehend the enormity of the service offer. Thus, the entire strategy should be based on communication, persuasion and tangibilisation. These are the ways in which intangibility can be overcome:

- Visualisation
- Association
- Physical Representation
- Documentation, facts and figures

These are explained below:

#### Visualisation

The marketer should find ways and means to help the customer visualise the transaction process and the service transaction benefits of consuming the service product. Pictures, films, etc. should be used evocatively.

The following examples serve to illustrate the point:



*Example:* Mauritius Tourism Promotion Board uses beautiful photographs of the Indian Ocean Island to convey the terrific enjoyment that lies in store for tourists. Mauritius is like a pearl surrounded by an emerald green sea. Recall their effective advertisement line “1% land 99% fun” and the accompanying visual of the vistas of Mauritius. In the sixties, the state government of Jammu and Kashmir used sections of the Rajendra Kumar starrer *Arzoo* for their tourism promotion. So beautiful was the visualisation of verdant Kashmir that it successfully conveyed the promise of tourism in the state. *Jungle*, starring Shammi Kapoor and Saira Bano did the same for a snowy Kashmir. *Kashmir ki kali* was a showcase for the beauty of the state, as represented by the charm of a very youthful and appealing Sharmila Tagore. Between them, the three films succeeded in positioning Kashmir, in the minds of tourists, as the ultimate getaway.

Notes

Association

The intangibility of the service offer makes it difficult for the marketer to convince consumers about its credibility, character, or the “ability to keep its word”, “service delivery”, etc. This can be overcome by associating the offer with some living persona, or known inanimate objects. This is almost akin to having a known personality endorsing the offer. In this way, the marketer can build a bridge, and expect the association to rub off positively on the service offer, morphing the endorser’s personality on it. The consumer makes the analogy, believes the service delivery promise, and gets some idea of its character. This makes it easier to build a relationship with customers.

ICICI Bank seeks to associate itself with the rejuvenated and dynamic Amitabh Bachchan. ‘The Big B’ is an appropriate symbol of enduring popularity, versatility, strength, character and genuine success. The fact that he has overcome a debilitating disease (myasthenia gravis), personal slur (failed political career, financial impropriety with brother Ajitabh in IPCA and Gammon India takeovers and questionable relationship with the Gandhis), financial ruin (failed attempts in satellite broadcasting, ABCL bankruptcy, Miss World fiasco, etc.) spoke of a unique, resilient, ‘ability to bounce back’ quality. But the key to the endorsement, of course, was the timing of the comeback: the Kaun Banega Crorepati game show. An Indian clone of ‘Who wants to be a Millionaire’, the anchoring/hosting was done with surprising finesse and gentility. Bachchan successfully addressed the whole nation, keeping it spellbound for a year and a half, proving that he was an inspired choice – both by Siddharth Basu as well as ICICI Bank. ICICI Bank associated itself with Amitabh Bachchan in its branding exercise.

For NIIT, the leading computer education firm, to get it itself linked with Vishwanathan Anand was a very intelligent move. NIIT was after all propositioning itself as a mecca for young minds seeking computer education and intelligent solutions for their career.



*Example:* Vishwanathan Anand is an international icon of intelligence, a chess grandmaster.

Singapore Tourism Promotion Board uses the logo ‘Merlion’ the mythical mermaid and lion morphed together to convey mystery, promise and pleasure that was always associated with that region right from the time the Britisher Sir Stafford Raffles discovered Singapore, the land of the lions. The word ‘sing’ means lion in the original lexicography of the subcontinent.

The oldest organisations that used this physical representation effectively are the church and the universities. The tall spires of churches have always given hope to troubled Christians; their cathedrals such as St. Paul’s are cavernous, tall and awe-inspiring and have been designed to make human beings feel small and humble before The Vision of a Higher Power. Old universities like Budapest, Oxford and Harvard have had their buildings tell most of the success stories. Parliaments, courts and city halls have seen the importance of buildings in evoking patriotism, moral sense and in rallying around.



Caselet

**Case: Air India**

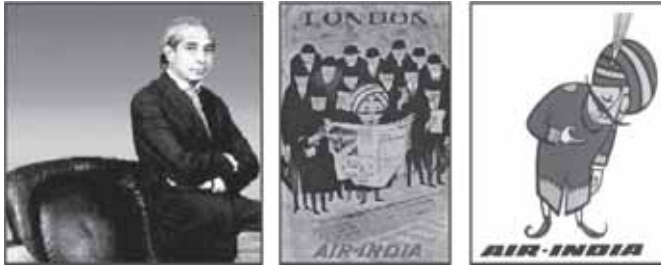
The Maharajah began merely as a rich Indian potentate, symbolising graciousness and high living. And somewhere along the line his creators gave him a distinctive personality: his outsized moustache, the striped turban and his aquiline nose.

What began as an attempt for a design for an in-flight memo pad grew to take Air-India’s sales and promotional messages to millions of travellers across the world. Today, this

*Contd...*



naughty diminutive Maharajah of Air-India is still nostalgically recalled as a world figure. He can be a lover boy in Paris, a sumo wrestler in Tokyo, a pavement artist, a Red Indian, a monk... he can effortlessly flirt with the beauties of the world. And most importantly, he can get away with it, simply because he is the Maharajah!



He has completed 57 years and could still be one of the most recognisable mascots the world over. His antics, his expressions, his audacious puns have allowed Air-India to promote its services with a unique panache and an unmatched sense of subtle humour. In fact he has won numerous national and international awards for Air-India for humour and originality in publicity.

And as with all great men, he too has had his critics. But the millions of travellers whose lives he has touched far outnumber them. In fact, to them, the Maharajah with his inimitable style, charm and wit is a very real person. He's almost like a friend to every Air-India traveller who reaches out with warmth and hospitality, even to the farthest corners of the world. Prudential Insurance has the rock of Gibraltar as part of its logo. It drives home the analogy that Prudential is as solid as the rock, which has weathered centuries of storms and turbulence. Merrill Lynch has the bull for its logo, successfully conveying to its present and potential stakeholders the capital market firm's business power, sentiments, inclinations and strength. Lufthansa, the efficient German airline has the flying crane for its logo. It is appropriate for an airline ('*Luft*' meaning 'air') but conveys more of German history, culture and anthropology ('*hansa*' meaning crane in Sanskrit, furnishes the Aryan link!). State Bank of India had the banyan tree as its logo in its earlier *avatar* of Imperial Bank of India. But with social banking as its main thrust, it sought a change of logo and commissioned Professor Nitish Dey of National Institute of Design, Ahmedabad to do so. The logo of SBI, colloquially known as 'the key hole' is recognisable by most Indians. The blue circle denotes ambition of SBI to be a worldwide bank with universal service; the tiny circle and outward path represents the small man who is not to be forgotten.

We call him a Maharajah for want of a better description. But his blood isn't blue. He may look like royalty, but he isn't royal.' These are the words of Bobby Kooka, the man who conceived the Maharajah. This once familiar, lovable figure first made his appearance in Air-India way back in 1946, when Bobby Kooka as Air-India's Commercial Director and Umesh Rao, an artist with J. Walter Thompson Ltd., Mumbai, together created the Maharajah. Sadly, today the Maharajah is perceived as a dated emblem, its glory faded and its charisma dimmed by time and mismanagement.

### Physical Representation

This has been one of the most effective ways in 'concretizing' the intangibility of service offers. Buildings were visible, solid and soaring architectures that conveyed vision and ambition of the service. The building conveyed the firm's permanence and accessibility.

The Reserve Bank of India conveys its solidity, stability and endurance by its thick walls and pillars, perhaps in imitation of the architectural design of the Bank of England... "The old Lady of Thread needle Street", as it is affectionately known to Londoners.

### Notes

**Notes**

CMC Ltd., the firm born after IBM was forced to leave India's shores in 1977 by the then ruling Janata Party, moved into a new building in the early eighties, which is now famously called "smart building". The public sector undertaking had taken a pioneering step, which is now being emulated by other private companies. The managing director of the erstwhile government firm (now CMC has been acquired by the Tatas through the disinvestment process) commissioned an entirely new type of design. The building is entirely covered by glass and the panes track the sun with the help of computers through out the year, allowing indirect sunlight to filter in. In the process, CMC saved lots of money by way of lighting expenses. The glass is photochromic and automatically gets tinted, reducing heat and glare. There are no floors in CMC – only split-levels and mezzanines. This gives a feeling of spaciousness and reduces hierarchical feeling. On the eighth floor, there is a swimming pool and recreation centre - designed for the programmers to relieve stress and to relax. Subtly, they motivated the assets of a service firm to stay longer in the office and to enjoy their work. But there was another reason and utility of the swimming pool: in case of fire the water from the swimming pool can be emptied to douse the flames! Thus, whenever a customer came into the building he made a simple equation: **smart building = smart people**. It is no coincidence that CMC bagged prestigious contracts like the Nhava Sheva projects over stiff international competition.

For Business Process Outsourcers (BPOs) their building, design and facilities are one of the key competitive features that a client looks for after Requests for Information (RFI) and during Request for Proposal (RFP). The two proposals are a way for the client abroad to choose the outsourcer. In their site, system, process and personnel inspections the client concentrates also on the building, office, facilities, designs, space and interiors. He perceives a direct relationship between the facilities and the competence of the outsourcer. This is one of the utilities of physical representation in the form of buildings. That is why organisations take great pain, effort and expenses to move into spanking new modern buildings. Some firms that have emulated CMC are ICICI Bank, Infrastructure Leasing and Financial Services (IL&FS) and the Wockhardt building, all in Bandra-Kurla complex, Mumbai.

**Business cards:** This is another tool of tangibilisation. The card, its design, paper used, etc., goes a long way in communicating the image of a service firm. The printed matter is equally important - as important as what is not printed! This is nearest to what a service comes to in packaging for goods.

**Documentation, Facts and Figures**

Service industries use documentations to prove its features and claims and thus are able to overcome the intangibility factor. Thus, firms like World Network Services, the erstwhile BPO of British Airways but now acquired by the investment firm Warburg Pincus, tout ISO 9001 and 9002 quality certifications in their corporate communications to convey their high standards of service delivery systems and processes. Educational institutions prepare to be awarded certification from National Association of Accreditation (NAAC), National Board of Accreditation (NBA), etc. Lufthansa, known for its exemplary service and punctuality, will tout best airline awards and maintenance certificates to convey its superior delivery and absence of accidents. Airlines' apex body Air Transport World chooses its annual "Airline of the Year" award. Service blueprints, mission and vision statements ('the world's friendliest airline' and 'to be the world number one in air travel' are some statements of British Airways) and Chairman's speeches are other documents.

Annual reports, profit and loss statements, balance sheets, etc. all are examples of such positioning documentations.

Facts, figures and data are always used to emphasize a point and to build credibility. Thus, Vandana Luthra's Curls and Curves (VLCC), the slimming solution provider would use facts and figures for comparative emphasis to drive home their success. Retailers, airlines, banks and hotels use their Customer Satisfaction Index (CSI) to communicate their standing in the market.

These are the following ways in which the marketer can overcome the unique characteristic of intangibility: visualisation, association physical representation, documentation, facts and figures.

**Notes**

### **Self Assessment**

State True or False:

1. Marketable products can be classified as tangible goods and intangible services.
2. Services marketing are complex and more challenging than the traditional goods marketing.
3. Services have increasingly assumed an important role in the economic development of many countries excluding India.
4. Marketing organisations, techniques and concepts have been classified to show the difference and similarities between the organisational framework.
5. Facts, figures and data are always used to emphasize a point and to build credibility.
6. Service industries use documentations to prove its features and claims and thus are able to overcome the intangibility factor.

### **3.2.2 Perishability**

As discussed before, the perishability factor prevents a service marketer from storing his offers. This robs him of the privilege of delayed sales. The service marketer suffers from lost opportunities. But there are ways and means to overcome the perishability factor:

- Over-Marketing
- Managing Demand
- Managing Supply

These are explained below:

#### **Over-marketing**

A service marketer targets for more customers than he has the capacity to serve. In this way, if there are dropouts and cancellations, the actual number of customers is the same as servicing capacity. Then the service marketer does not suffer from any opportunity loss. But the flip side with over-marketing is the possibility of extreme dissatisfaction amongst those customers who have been the target for over-marketing but are being denied services. Obviously, no good service marketer worth his salt would like to be in the position of having customers on the doorstep and turning them down.

So the trick is to do over-marketing with lots of clauses, catches and conditions. The customer is made to participate in the over-marketing process and also to agree beforehand to many conditions.

#### **Restaurants**

Restaurants bill customers who do not turn up after having taken table reservations. The customer cannot complain, as that particular clause would have been agreed upon by him when making the reservation. Similarly, customers are denied service even after reservations if they arrive later than the agreed time; the next person in the waiting line is offered the service. Many service

**Notes**

organisations pursue this method only to cut down the losses due to perishability, and in order to avoid clientele right down the line.

**The Airline Industry**

The Airline Industry is liable to suffer huge losses because of perishability as explained before. A British Airways flight is supposed to take off at, say 4'O clock in the afternoon, but if its entire seats have not been sold, then the airline loses revenue. So, what British Airways does is what most airlines do, viz. market for customers more than the capacity of the seats. But they also make the customers agree and sign clauses of reporting much before takeoff time. The customer is aware of all these clauses and the condition that if he does not report before the check-in time, the next passenger in line would be offered the seat.

This avoids losses through perishability but is open to charges of customer dissatisfaction. But that is where it tries to cover up by making the customers agree to all the clauses. Sometimes, factors beyond their control, like terrorism and extra-careful security checks, make them increase reporting time and passengers are made to agree to such clauses.

**Tour packages:** Rarely do tour packages have less than full customers. This greatly affects their profits and consequently their pricing. For a particular itinerary, they calculate all the direct costs emanating from travel, boarding, food, sightseeing, guided tour costs, channel partners' costs, if any, etc. add their profits and then arrive at the price. The exhaustive costing is only for one group and the breakeven point is too sensitive to be left for any cancellation. They invariably resort to over-marketing and if by a small probability the cancellations are nil, then the extra passengers are put into the next tour.

**Education:** A Business School can either admit more students than it can accommodate in a class to beat perishability or create exit barriers like forfeiture of admission/semester fees on late cancellations.

**Managing Demand**

With no scope for delayed sales or stocking of inventory, it is all the more imperative for a service marketer to manage demand. Accurate demand management would aid estimation and forecasting which would in turn help avoid perishability. At the risk of sounding pompous, one can safely say that marketing is all about demand identification, measurement and management.

Nine different types of demand have been identified. The service marketer has to understand and adopt them in his marketing to avoid perishability. They are:

1. **Rising Demand:** This occurs when the service offer is in the growth stage of the product life cycle, customers are aware of the service category and service brand, and the rate of adoption is increasing in geometric progression with more first-time buyers trying the service offer and customers making repeat purchases. The service marketer not only should recognise this trend but also measure the rate of rise of demand. This information would enable him to cater to the rising demand by appropriately increasing capacity of service – facilities, service personnel, etc. – and avoid lost opportunities. But the marketer should also be warned that success begets imitators and toward off the competition it would require expenditures in promotions and discounts. This would severely hit the service marketer's bottom line and he should be prepared for the next service product development.

**Cell phone service:** The marketer should not only recognize that there is a rising demand for cell phones, across all sections, especially youth, but also the rate of growth of demand (Chandigarh became the first town where cell phone users are more than land-line users).

He will thus be prepared with his expansion plans of more network facilities, retail stores, capacities and personnel and be ready to implement them. The service provider will be ready to catch the incoming customers and will not suffer from lost opportunity.

2. **Falling demand:** There could be many reasons for declining demand for a particular service offer: direct competition, substitute competition, unattractive pricing, poor service delivery, etc. Falling demand for video parlour services due to the popularity of satellite broadcasting TV channels is another case of technology changing the pattern of demand for services.

Declining popularity of pool parlours, once the rage in Mumbai and other metros, may be ascribed to the fact that multiplexes shopping malls and beer pubs were seen as better place to hang out, by both sexes of the affluent, hedonistic metropolitan youth.

Whatever be the reasons, the service marketer should identify the declining demand, measure the rate of decline, analyse the causes, bring forth innovative marketing programmes to arrest the trend or else if the service category itself is on the decline, get out of the market and cut losses.

3. **Zero demand:** The market may not be having a need of a particular service offer because of various demographic, socio-economic and sometimes geo-demographic factors. The service marketer has a choice either create demand for the service by finding out the needs, wants and desires of the market or do not enter the market.

People in certain localities may not be interested in home delivery as they dislike strangers coming into their homes, especially when the men folk are not at home. Even courier services are badly hit due to this social factor. Thus, modern retailing or non-store retailing may not take off in that place. There may not be any demand for English or foreign language courses in rural Rajasthan. Similarly, there really may not be any demand for counselling centres in rural India or Western Union money transfer facilities in an area where there is no migration of people – no reason to either send or receive money. Correct reading of the demand will prevent marketers from wrong investments.

4. **Full Demand:** In this situation, the service marketer will find that the demand is equal to supply. It is an ideal situation for the firm but danger lurks when a new entrant brings out his offer. Then either the market has to increase the consumption or else the players battle it out amongst themselves fighting for the same pie. Normally price wars are inevitable, margins fall and the viability of the service firms comes into question. Only the fittest tend to survive; mergers and acquisitions become the norm or else the weaker players face closure and bankruptcy.

In the US, there was deregulation of the airlines in the Reagan Administration (1980-88). This brought numerous players into the fray. But with recessions from two successive oil shocks (1973 and 1979), people were less inclined to travel. It took a toll on the industry when the players resorted to massive price wars; bankruptcies, mergers were very common. The unthinkable happened – airline legends like PanAm and Trans World Airlines (TWA) closed down. Similarly in the US, long-distance telephony witnessed massive competition when more players entered the market with the same fibre-optics technology. There were more lines than customers' requirements. Behemoth WorldCom, a result of frenetic mergers and some very famous players like MCI, lost their identity in the acquisitive game. WorldCom never recovered from the enviable growth and collapsed in a slew of scandals.

5. **Overfull demand:** This takes place when demand far outstrips supply, and the service marketer is not able to handle the demand. This implies that there are either fewer capable players or entry barriers and regulation against free market enterprise. Either way, the service marketer cannot be complacent and has to be prepared for demarketing his service.

**Notes**

If not, disillusionment may set in and negative feelings might creep into the customer's mind.

Classic examples of over-demand include:

- ❖ There is more demand, in India, for LPG supply and connections.
- ❖ Till the advent of the Cellphone service, telephone connections had high demand which could not be met by the Telecom Department of Government of India.
- ❖ Berths in Indian Railways, especially during the summer or any other holiday seasons.

Some solutions to beat this high demand would be to have bookings, waiting lists, reservations, RAC (Reservations after Cancellations), etc. Appropriate demarketing is also done by the respective organisation or apex bodies. For example, Petroleum Conservation Research Association (PCRA) educates housewives and motorists on how to save fuel and consume less. Mahanagar Telephone Nigam Ltd. used to demarket its service by exhorting people to talk less during peak hours as others were in the queue. During World War II, there were tremendous shortages of food, butter, margarine and petrol. The propaganda departments of the War Ministry of Great Britain brought out hoardings (billboards) with such messages as "Do you need to travel?" etc.

If the service marketer finds that there is a long waiting list for its service, it might go for additional capacity and service support. Thus Indian Railways announces 'Holiday Specials', airlines add more flights etc.

A market survey was conducted for Shell by SIES College of Management Studies, Nerul, New Bombay to find the potential for their 12 kg. LPG cylinder in seven nodes of New Bombay. The demand was estimated to be 10,000 cylinders per month (weight adjusted for the 12 kg. cylinders of Shell). This estimation was confirmed when a tally of the total waiting list for LPG connections from the public sector companies was made, amounting to 10,000 cylinders of consumption per month! Armed with this information, Shell decided to increase its delivery and other services in New Bombay.

6. **Negative Demand:** This is a kind of anti-demand. Customers would do anything to avoid consuming a particular service. This could be because they might fear bodily harm, irreversibility in the consumption, high risk, etc. They would sometimes pay to avoid the consumption/experience of the service offer. Cosmetic surgery – With increasing media reports of the harmful effects of cosmetic surgery and beauty treatments, there might be a negative demand by the target market for the service. Similarly, there are people who have a phobia against inoculation and would do anything to avoid it.



*Example: Laser eye surgery:* This is a pioneering Russian technique to improve vision by 'etching' the lens of the eye. The catch is that once etched, it can never be reversed. This aspect, if comprehended by the customer, would bring forth negative demand.

**Time-sharing resorts:** When this service offer came into the Indian market in the early eighties (Dalmia Resorts, Sterling Resorts, etc.) it created a negative demand amongst people as they perceived an element of irreversibility in the scheme. A person paid a lakh of rupees for the privilege of staying in any of their resorts spread all over India for two weeks in a year. So far so good, it seemed. But people discovered that there were no provisions for resale, transfer, or gifts. Worse, if it so happened that one was not able to use the privilege for any year then he had to suffer forfeiture; there was no compensation route.

The service marketer has to communicate the reversibility in the purchase to his target market. Otherwise they tend to be price sensitive. When SBI made provisions for its mutual funds, branded as Magnum, to be traded in the stock market, and to be treated as an instrument of lien (a loan could be taken against it) it became popular, although the stock market was lukewarm. The risks have to be clarified and provisions for alternate solutions have to be made.

7. **Latent Demand:** This is a demand that lies deep inside a consumer unquenched, as no service offer exists to satisfy it. The consumer may not be able to accurately articulate his demand and features of the offer and therefore may not be able to voice his desire. But when such a service does come in the market as an offer, he grabs it.



*Example: Good day-care centres and crèche:* With women coming out in the workforce in larger numbers, there was an urgent need for such services. Prior to this, there were many who either could not enter the workforce or had to discontinue their jobs after motherhood. This is one of the reasons for the popularity of 'play schools' and Euro Kids, after *ayahs* became a fast-vanishing breed.

**Cellphone services:** In metros, the less-than-satisfactory infrastructure services were taking a toll on business, communication and connectivity. Transport systems were creaking, carrying seven times their normal capacity and it was taking longer for people to attend business meetings. The MTNL network was not satisfying people and the demand for the phone was far outstripping supply. All Mumbaikars and Delhiites felt the need for being connected while on the move. So when the cell-phone services finally came to India, the overwhelming demand took almost everyone by surprise. India Today brought out a cover story with an imaginative sobriquet for the cell phone users: Cellerati.

**Sangam direct:** With urbanization came commuting, DINKYs (Double Income No Kids, Yet), and plain dual income. This left less and less time for shopping and leisure. So when Hindustan Lever Limited (HLL) started Sangam Direct, the direct-retailing venture promising home delivery of 5,000 brands when ordered through the telephone, Mumbaikars leapt at the offer. It answered their latent demand for shopping at ease without the crowd... or better still, having items home delivered.

8. **Seasonal or irregular demand:** Demand for certain services fluctuates with seasons or is irregular. Sometimes there is regularity in their irregularity (seasonal). Some seasons there would be peak demand, while in others there would be less. This greatly affects the service management, delivery and profitability. The service marketer should, with suitable promotions shift the demand to off-peak hours/seasons.



*Example: Hotel accommodation in Goa during the monsoon:* While there is hardly any accommodation available in Goa during summer, rooms go abegging during the monsoon. Hoteliers then bring out special monsoon packages with lower price and positioning on romance ("Come to Goa during the monsoon for your honeymoon – it's you and the rains!").

**Movie theatres** – the matinee show is not as popular as the evening shows. The theatre owner tries a time shift of value by lowering the price for a matinee show.

McDonald's and many others have 'Happy Meals' at a lower price during less crowded afternoons.

**Esselworld:** During the monsoon the theme park positions itself on romance, siren-calling the romantics, simulated 'rain dancing', etc.

9. **Unwholesome demand:** People tend to lose interest in the service offer when they receive new information about the process or ingredient in the service. The new information is

**Notes**

unsavoury and their desire for the service evaporates. The service or goods become unwholesome, without any nutrition, resembling junk food.

Thus, the public enthusiasm for Narmada Dam evaporates when the abysmal treatment and compensation to the 'oustees' are highlighted in the media. Cigarettes, liquor, drugs, heavy usage of cell phones, are all unwholesome demands for which demarketing is required. Obviously no marketer of such products would demarket his offers; he should be adept enough to recognise the demand and address the anxiety of the sensitive consumers' request for more information.

Thus, social marketing comes to the fore. Organizations like the police, NGOs, the armed forces, religious and educational institutions, etc. should use persuasion, fear high price and – by preventing distribution and accessibility – discourage consumption.

Many westerners do not want to patronise Indian leather garments after People for Ethical Treatment to Animals (PETA) highlighted the horrific and barbaric way in which animals are slaughtered here.



*Caution* Demand for certain services fluctuates with seasons or is irregular.

**Managing Supply**

A service marketer suffers from Perishability if he is not able to manage his supply. That is, during demand the service provider is not in a position to deliver only because he is neither prepared nor ready – due to supply bottlenecks. They range from goods to personnel:

**Goods:** Supply problems in respect of goods occur in those services that are highly tangible like retailing, car rentals, restaurants, tourism, hotels, pubs, etc. If certain merchandise is not available when a customer asks for it (stock out), he is free to go to another retailer. Thus, the service marketer forever loses that revenue. To retain the customer, the retailer might offer rain checks (a promise to stock the SKU especially for the customer whenever he comes next – which is an expensive proposition anyway).

Souvenir sellers may lose customers because they may not have the particular merchandise; similar would be the dilemma of a pub manager if he doesn't stock certain brands asked for. If a car rental company like Wheels-Rent-A-Car doesn't have a four-wheel-drive in their pool when asked for by an adventure tourist, he might lose the customer.

**Systems and processes:** Supply problems occur here when the systems and processes of service delivery fail and the provider is not able to offer the service as he is entirely dependent on them.



*Example:* With the 9/11 terrorist attack in New York, and the destruction of World Trade Centre, many BPOs and banks based in USA could not continue their service. It was with great difficulty that American Express restarted their operations only due to their Indian connection via their BPO.

If there is any supply and quality problems in the ATMs from National Cash Register (NCR), ICICI Bank may not be able to offer its unique services. Its entire strategy of having a high ATM-to-manned branches ratio might come to naught.

Amazon.com and Rediff may not be able to offer their services if there are problems with Tata Power, BEST, BSES (for electric supply), VSNL, the ISPs and MTNL (for connectivity) etc. Similarly, a photocopier or telephone booth will not work if there is a power failure.



**People:** Perishability occurs when the service marketer is not able to marshal internal customers in the right place in the right time in requisite numbers. The internal customers, as mentioned before, are employees, channel partners etc. all those who play the role of providers.

A retail store has peak-time crowds during evenings and slack times in the afternoons. The dilemma for the retailer is how many employees to have: if their number is as per the peak time crowds, then there might not be much work for them during the slack times and the retailer ends up having higher operating costs. On the other hand, if the retailer has employees sufficient to cater to the afternoon and morning shoppers, then they might be overwhelmed by the peak time rush. This might greatly affect the service encounter, inconvenience the shoppers, result in long queues and, in effect, have unpleasant experiences. The staff would soon be de-motivated and the impatient shoppers might change stores.

The store could then manage the personnel supply problem with part-time employees during peak time demand.



*Example:* Esselworld, the theme park pioneer, takes in students as temporary employees or trainees on internship during their summer holidays.

**Peak-hour essential services:** A retail bank during peak hours might shut down a few non-urgent desks/counters and concentrate only on essential services. Thus, during heavy withdrawals (old-timers in PSU banks, before the advent of ATMs, would recall with shudder the first ten days of the month in their branches as 'salary days' – where people crowded for the withdrawal of their salary), certain non-essential areas like the enquiry counter, dispatch, etc. might be temporarily shut down to man extra counters in the savings and current accounts withdrawals and cash section.

In this way, service firms can manage to find ways and means to address its unique characteristic of Perishability and not losing business during the time of service transactions.

**Include the customer in your process:** This is a novel way to beat Perishability due to the supply problem of personnel. The customer is made to be a partner and a part of the service delivery. Executive buffet lunch is a classic example of a high quality service offer delivered with minimal staff support. Whatever be the crowd, if the provision and capacity for the lunch is there, it can be delivered through the executive buffet process. The diner helps and serves himself; the provider ensures that all the paraphernalia like cutlery, tissue paper, etc. is available. Self-service shopping in modern-format superstores is another example. The customers wheel out the trolleys and carts themselves and load their shopping goods in them. When their shopping is complete, they go out to the checkout counters for payment. Customers in a bank fill out the forms themselves while shopping for Dell computers on the net is pure self-service.

### 3.2.3 Variability

Variability conveys to the customer an element of inconsistency and non-standardisation in the service offer and service delivery. The customer's service encounters are different every time. Some of the ways this can be overcome are:

- Training of Internal Customers
- Recruitment and selection of Internal Customers
- Training of External Customers
- Automation

**Notes**

**Training of Internal Customers**

This is one of the most important tools for a service organisation to beat heterogeneity or variability. The variability occurs, as mentioned before, due to the difference in the background of the internal customers, their varying moods, experiences, involvement, orientation and skills. Training would be the equaliser and all the internal customers – employees, channel partners, associate partners and third party administrator – would project uniformity in the service delivery to the customers. This projection is more important because what the customers perceive is the service quality.

Outbound call centres need to create the impression that the call originator is within the country and not from a far away land called India. So the key skill for a telemarketer and customer associate is clear, accent less speaking ability (from the customer's point of view!). Training is the only tool to make all employees of the call centre has the same oral communication skills.

A retail bank has different types of businesses for different types of customers and their varying needs – personal banking (savings, current accounts and their respective deposits and withdrawals), small business, agricultural banking, international business, institutional business etc. A customer might have to go to several desks in one day – deposits, demand drafts, enquiry for foreign exchange, personal loans, etc. But the variability factor is responsible for his different encounters. Different employees will leave him with different experiences: he would be satisfied with the customer service in one, dissatisfied with another and delighted with the third. It could also be that the same employee was quite competent in the personal banking section but was floundering in the international section. Only training would iron out the kinks in skill and orientation differentiation.

Very few managers have the privilege of starting an organisation from scratch. That would give them the freedom to mould the organisation fully to their vision without the distraction of the dissenters. Most have to rest content with managing the legacy of their predecessors. And this includes the quantity and quality of the internal customers. Thus, as mentioned before, for the manager who comes in late, training of the internal customers becomes a decisive tool to overcome non-standardization.

Different types of training are as follows:

- Orientation-cum-Induction
- Refresher
- Re-skilling
- Motivational, leadership, group dynamics

**Recruitment and Selection of Internal Customers**

A manager could choose to have better quality personnel through quality recruitment and selection. This would ensure that the internal customers are from the same background, levels of skills and orientation, and would thus deliver homogenous services. The decision-maker would get a chance to get the right persons for the right jobs.

**Training of External Customers**

Another way to reduce variability is to train the customers to go through the transaction process. Service is a transaction between the service provider and the customer. It is not enough if only one of the players (read provider) in the transaction game is at a high level of competence. To complete the transaction process, the customers should also be knowledgeable about the service

offer, process, rules and norms. Otherwise the learning curve of the customer tends to be longer, delaying the service transaction and lowering the service quality.

**Notes**

The consumers affect the transaction due to the following differences amongst themselves:

- Varying socio-economic backgrounds like income, education, family of orientation, etc.
- moods, involvement, orientation
- experiences

In a post-graduate college, in a certain course, students could have different demographic profiles. Some could have had schooling in the vernacular medium while others could be from convents or English-medium schools. Again, some could be from the science stream while others could have a humanities background. All these make them adopt a different approach and orientation to the transaction, making the teaching a high quality or low quality transaction as the case might be. To put it differently, twisting the Pygmalion experiment, if a professor has a class of only the top thirty, the teaching encounter would definitely be of a much higher standard as when compared to a situation where he taught a class of only the bottom thirty. In the latter case, he would have had to come down to their level, slowed his pace and would have resorted to the tutorial mode more often.

A banker in the course of his daily transaction would have had customers who are business executives, well-versed with banking norms; housewives, who desire more courtesy, attention, care; students who would like to spend the least time in the bank premises; and the illiterate who might require detailed explanations, translations and form-fillings. He would require different time and effort to complete the same kind of business transaction amongst the different types of customers.



*Note* Services are inherently intangible, are consumed simultaneously at the time of their production, cannot be stored, saved or resold.

Therefore the organisation can also attempt trying to train the external customers in the transaction process. It would definitely enhance the quality of transactions. Thus, students admitted to business courses are given a fortnight of orientation and basic foundation teaching and training. It could also imply literacy training for illiterate customers. State Bank of India has a Social Banking Department whose main job is to try and improve the literacy of rural customers. With them becoming literate they would then be able to attempt writing cheques and deposit slips on their own and thus save a lot of valuable time for the bankers in making the service transaction better.

### **Automation**

The third way to improve homogeneity and standardization is to go for large-scale automation in the service transaction process. Automation will bring consistency in the service delivery and transactions. Thus banks are going in a big way for ATMs (Automated Teller Machines). Within a bank branch there are note counting machines; retail stores have the infra-red bar code scanners, Electronic Data Capture (EDC) machines through which credit cars are washed/polished; hotels, airports, railway stations and many apartment hotels have got touch-screen enquiry systems; Indian Railways have bookings done through the Internet, and tickets are validated by coupon validating machines, etc. Automation to a great extent attempts to overcome variability and introduce homogeneity.

Notes

**Self Assessment**

Fill in the blanks:

7. Customers are co-producers of .....
8. .... is a marketing offer; where consumers confine themselves to valuing only the service they receive and nothing else.
9. .... is a typical marketing offer where the tangible goods and service may be given almost equal weightage by the consumers.
10. The ..... way to improve homogeneity and standardization is to go for large-scale automation in the service transaction process.

**3.2.4 Inseparability**

The implication of both the provider and the consumer of the service having to be present during the time and at the place of the service encounter is that the marketing takes the form of an event management. Its success would depend on the ability to bring the service provider and the consumer under one roof, at the same time. Otherwise, the service transaction does not take place.

There are ways to overcome inseparability:

1. **Training of internal customers:** The service provider with the help of his organisation should take extra quality effort to train other service providers, as trainees under an expert. The intention is to bring more service providers of the same expertise into the market. Then the number of people who can be served at one time would be more and the catchment area of service could also be widened.

A surgeon with the co-operation of the hospital, medical colleges and the apex body Medical Council of India takes in interns. They work under the surgeon, being present during operations, aiding him in a few of the processes of surgery. These surgical processes are routine, preliminary and for which expertise may not be required like making the initial incision, clamping blood vessels, swabbing blood flow, holding the cut part for deeper and main surgery, sutures and sponge count, etc. If the interns acquire the requisite expertise, they can then begin the preliminary steps of the surgery while the surgeon completes another case. Minor surgeries are then handed over to the junior doctors. Once this process of training has been perfected, most preliminary operation procedures are handled by the junior surgeons and the expert is present only for the major surgery. In this way, more patients can benefit from the main surgeon's expert.

A professor of management has teaching assistants who would sit in his class, observe and adopt the different pedagogical (teaching methodology) skills, carry on supervising assignments, tests and group work and also help the professor in evaluations. The TA also develops case studies, teaching materials and follows up with the class for smooth co-ordination. Inseparability is sought to be overcome by bringing out in the market more and more qualified and capable service providers.

2. **Adopting and innovating other methods of service:** Psychiatrists have innovated with the concept of group therapy to achieve their treatment goals. Previously, they used to see one patient at a time, having one-to-one interaction. This limited their exposure to patients. But with group therapy, the psychiatrists see many patients simultaneously by design and the methods seem to be delivering results. Organizations like Alcoholics Anonymous and drug rehabilitation centres are successfully using this technique. Modern day *gurus* use group therapy only.

3. **Video conferencing:** Inseparability can be overcome by the service expert giving instructions through video and satellite conferencing. Thus it is now very common to have a complicated surgery not only videotaped for reference and replay but also broadcast to medical colleges near and far. Expert opinions in medical and legal matters are sought and received through video and satellite equipment. Teaching, business conference, intra-company meetings across world-wide branches and economic leaders' conclaves are taking advantage of this technology to overcome inseparability.
4. **Robotics:** Many intricate surgeries are now carried out with the help of robots. In developed countries like UK and USA, surgery can even be performed by robots guided by signals sent by a surgeon located hundreds of miles away, who is operating controls and viewing the operation on a monitor.

Notes



Task Elaborate the nature of services.

### 3.2.5 Customer Participation

The production quality of the service greatly depends upon the ability, skill and performance of the employee as well as the ability and performance of the customer. In the service interaction, although the employee and the customers are not equal part of production, the role of the customer cannot be overemphasised. Service firms should make the customers aware of the service package a production process through proper communication media. They should take necessary steps to train customers, if necessary, to provide quality experience of the service. Perfection from the organisation's side in service production cannot ensure positive results unless the consumers are involved with the process. Therefore, specific and special orientation to different groups of customers is necessary. Customisation is one of the key strategies the service firms adopt to ensure efficient and effective participation of customers. Customer participation is active in services such as medical treatment, hairdressing, health clubs, colleges and beauty care centres.



*Did u know?* Customisation is one of the key strategies the service firms adopt to ensure efficient and effective participation of customers.

### 3.2.6 No Ownership

Service consumers will have experience but not ownership. Since the services are intangible and perishable, the question of ownership doesn't arise. But this characteristic will add to the problems of the service marketer. Convincing the customer with tangible goods on which he will have ownership through transfer of title is much easier than selling in experience where nothing remains after consumption, except the memory of it. Customer dissonance would be higher in the cases of services than of goods.

Due to the above mentioned characteristics of services, service providers face varied problems and challenges in marketing, when compared to producers of goods. The six service characteristics create additional and more complex challenges to the marketers. Service organisations need to develop a distinctive and comprehensive marketing strategy keeping in view of the new challenges to achieve organisational goals. One of the highly rated marketing strategies for service organisations is service triangle. Let us understand this strategic approach.

Notes



*Caution* Service production is not a one-sided activity. Customers are co-producers of service.

**Select Services**

Services have grown in many forms throughout the world. In order to have a clear understanding on the scope of this sector the following list of services are presented below, there may be many services beyond the list in many countries. But the list presented is almost universal and play the pivotal role in the development of different economies.

<b>Box 3.1: Services</b>			
1.	Transportation and public utilities	2.	Amusement and recreation services
3.	Communication	4.	Health services
5.	Electric, gas and sanitary services	6.	Legal services
7.	Wholesale and retail trade	8.	Educational services
9.	Finance, Insurance and Real Estates	10.	Social Organisations offering services
11.	Hotels and Lodging	12.	NGOs offering Services
13.	Personal services	14.	Government services – civilian cum Military
15.	Business services	16.	Government enterprises
17.	Repair and maintenance contract services	18.	State and Local government services
19.	Motion pictures	20.	Tourism services
21.	IT & ITeS Services	22.	Construction and Infrastructure service

**Self Assessment**

Multiple Choice Questions:

11. The following consumer activities are sought at which stage of the new service development process:
  - (a) Service testing and pilot
  - (b) Test marketing
  - (c) Commercialisation
  - (d) Strategic planning
  
12. What do so called “toolkits” allow consumers to do?
  - (a) To create an information exchange with the company
  - (b) Participate in product trials
  - (c) To provide opportunities to participate in brand development activities
  - (d) To create their own products

13. The internet provides firms with the opportunity to communicate with end users without the need for intermediaries such as retailers. This allows manufacturers to:
- Establish user network groups
  - Test product ideas
  - Gain access to product ideas
  - Listen to consumer concerns
  - All of the above
14. Research by Franke and Piller (2004) explored how:
- To create new service ideas
  - Service developers can reduce costs and improve efficiencies
  - Firms can integrate users into the design and production process
  - EBay can develop more new services
15. What is the 5th unique characteristic of service markets given four characteristics as follows: Lack of ownership, Intangibility, Inseparability, Heterogeneity.
- Perishability
  - Serviceability
  - Protractability
  - Homogeneity



Case Study

### **Case: Do Services have Different Characteristics than Goods?**

**N**NEPC Airlines was promoted by the Khemkas, the Chennai based Marwari business family. They took advantage of the second wave of liberalisation in the aviation sector in the early nineties, to venture into air transportation business. The NEPC group is still in the business of processed food (atta), wind power, textiles, etc. But they failed in their airline venture.

The aviation sector was opened up partly after the return of Mrs. Indira Gandhi to power in 1980. Feeder routes to small cities were chartered and a separate airline, Vayudoot, was formed. By the nineties, private participation was allowed and a rash of smaller airlines came into the picture, plying through the feeder routes like Nagpur, Bhopal, Raipur, Jagdalpur, Goa, etc.

NEPC Airline had the Dornier aircrafts, which are small, seating about 25 people, with the luggage compartment designed in the snout. It flew short and non-metro destinations like Indore, Pune, Nagpur, Mysore, and the bigger cities of the south like Bangalore, Chennai, etc.

It came in the news by quickly taking over a few smaller airline companies, like East-West Airlines, Span airlines, etc. But the government restrictions, limiting its flights only on

*Contd...*

**Notes**

feeder (non-popular, giving connections to main airlines) routes, and intense competition brought down its operating margins.

But the biggest problem it faced was in getting the professionally trained personnel – flight, ground and marketing. It also never could position itself in the minds of the passengers vis-à-vis Jet airways, Modi-Luft (now defunct) and Air Sahara.

**Questions:**

1. Do services have different characteristics from goods?
2. Can you explain why, although NEPC was strong in goods, it failed in a service venture?

### **3.3 Summary**

This unit attempts to give an overview of the functions in as simple manner as possible.

- Services have become an integral part of any economy's infrastructure and have become indispensable to urban life.
- 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 four special characteristics of services: intangibility, perishability, variability and inseparability.
- A customer cannot see, touch, or feel the service product. There is also no scope for the customer to make impulse purchase decisions as triggered by visual images and the touch-and-feel factor – which are not any way possible in intangible service offers.
- These are the ways in which intangibility can be overcome: Visualization, Association, Physical Representation and Documentation.
- The perishability factor prevents a service marketer from storing his offers. This robs him of the privilege of delayed sales. The service marketer suffers from lost opportunities. Methods to overcome perishability are: over-marketing, managing demand and managing supply.
- Variability conveys to the customer an element of inconsistency and non-standardization in the service offer and service delivery. The customer's service encounters are different every time. This can be overcome by training of internal customers, proper recruitment and selection of other customers, training of external customers and automation.
- Services can be differentiated from products based on factors such as the nature of the product, customer involvement in the production process, people as part of the product, quality control problems, difficulty in evaluation, absence of inventories, importance of the time factor, and nature of distribution channels.
- Services can be classified by: end-users, degree of tangibility, people, expertise, and orientation towards profits.
- In end users classification, there can be three types of end users namely: individual consumers, business-to-business end users and industrial end users.
- Services can also be separated as high contact services that involve higher degree of contact from the customers like financial services and low contact services like ATM.



### 3.4 Keywords

Notes

**Experience Goods:** Goods (services) that need to be experienced before you can evaluate them.

**High Contact Services:** Service providers have high degree of contact with the customers.

**Low Contact Services:** Services characterised by very low contact with people.

**Perishability:** It refers to the fact that (in general) services cannot be produced and stockpiled (inventoried) before consumption.

### 3.5 Review Questions

1. Define the concept service marketing and its characteristics.
2. Distinguish between goods and service.
3. What are the classifications of services?
4. Explain the paradigms in service marketing.
5. Mention any five services that have significant tangible elements attached to them and five goods that have service element attached to them.
6. Services sector is playing the role of growth driver in many developed and developing economies. Discuss.
7. Market has variety of offers ranging from pure goods to pure services. In light of this statement explain the product-service continuum.
8. Do you think that classification of services can help in developing the marketing strategy better? How?
9. With tangibility and intangibility on either ends of a continuum, can you identify services which can be classified along this continuum? Select one of those services used by you as an individual, as family and as an organisation.
10. On a product-service continuum place the following items: automobile, fast food meal, pizza delivery, auto repair, and advertising agency, computer, counseling and installed carpeting.
11. In which category would you put the following services? Give reasons also:
  - (a) A day care centre
  - (b) Chartered bus service
  - (c) Tele-shopping
12. Explain your answer. "Marketing is all about value creation for the customer". Explain this statement from the point of view of a new entrant like Kingfisher Airlines.
13. To what extent do you consider that purchasers of services have concern for the ethics of how a service is produced? How would you assess firms' responses to such concern?
14. Consider the statement of Toyota: "Know you is know-how". Explain it in the context of service marketing concepts and orientation.

**Notes**

**Answers: Self Assessment**

1. True
2. True
3. False
4. True
5. True
6. True
7. Service
8. Pure service
9. Hybrid
10. Third
11. (a)
12. (d)
13. (e)
14. (c)
15. (a)

**3.6 Further Readings**



*Books*

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, The Free Press

Ravi Shanker, *Services Marketing*, Excel Books, New Delhi

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi



*Online links*

[www.marketingteacher.com/.../lesson\\_services\\_marketing](http://www.marketingteacher.com/.../lesson_services_marketing)

[www.online-pr.com/Holding/ServiceMarketingSecret](http://www.online-pr.com/Holding/ServiceMarketingSecret)

<http://dis.shef.ac.uk/sheila/marketing/services.htm>

<http://www.mba-tutorials.com/marketing/165-products-vs-services.html>

## Unit 4: Service Strategies

Notes

### CONTENTS

Objectives

Introduction

- 4.1 Competitive Marketing Strategy
- 4.2 Service Recovery Strategies
- 4.3 Managing Demand, Supply and Productivity
- 4.4 Managing Waiting Lines
- 4.5 Summary
- 4.6 Keywords
- 4.7 Review Questions
- 4.8 Further Readings

### Objectives

After studying this unit, you will be able to:

- Discuss the competitive marketing strategy of service firms
- Know some service recovery strategies
- Realise how service firms manage demand, supply and productivity
- Know how waiting lines can be managed

### Introduction

The service firm has some major issues which are to be tackled by the management and the marketers. Due to the intangibility of services it is very difficult to make a competitive strategy for the services. Different people attach different attributes to a service and evaluate the service differently. Due to the variability factor, the services can't be standardised which makes it even more difficult to decide on one strategy. A service marketer should always keep in mind the requirements of the customers while deciding on any single strategy because the requirements of every single customer vary.

It is also very important and difficult to manage the demand and supply constraints. Demand is a variable which depends on a variety of factors and service firm has this challenge of matching its capacity to demand. They sometimes also try to influence the demand variable to match their own capacity. With low capacity and high demand also comes, the problem of waiting lines. This is one area where the service firm loses most of its customers. Customers hate to wait in lines. Now with the availability of many options and substitutes, customers have become more impatient. Managing waiting lines is also a big challenge for the service firms.

In this unit, you will learn the competitive service strategies, recovery strategies, how demand, supply, productivity and waiting lines are managed.

### 4.1 Competitive Marketing Strategy

A service firm with multiple goods and service offers needs to make separate strategic plans for each business proposition and each market in which it competes.

Notes



*Example:* HDFC the home finance will have different strategic plans when compared to the retail banking strategies of HDFC that has now merged with its parent company, HDFC Bank or its insurance ventures HDFC Standard Life and HDFC Chubb.

Then there would be requirement of strategic plans for different functions like marketing, human resource, finance etc. Thus HDFC Group (which includes home finance, retail bank, life and general insurance) or the ICICI Group (which includes the universal bank with all its different divisions of institutional, retail, home and consumer finance, etc. life and general insurance, informational technology, etc.) can have strategic plans at three levels:

1. **Corporate level strategic planning:** The service organisation has a clutch of SBUs, and the planning affects the fortunes of all of them. The focus is to integrate the strategies of the individual SBUs to conform to the group's goals.



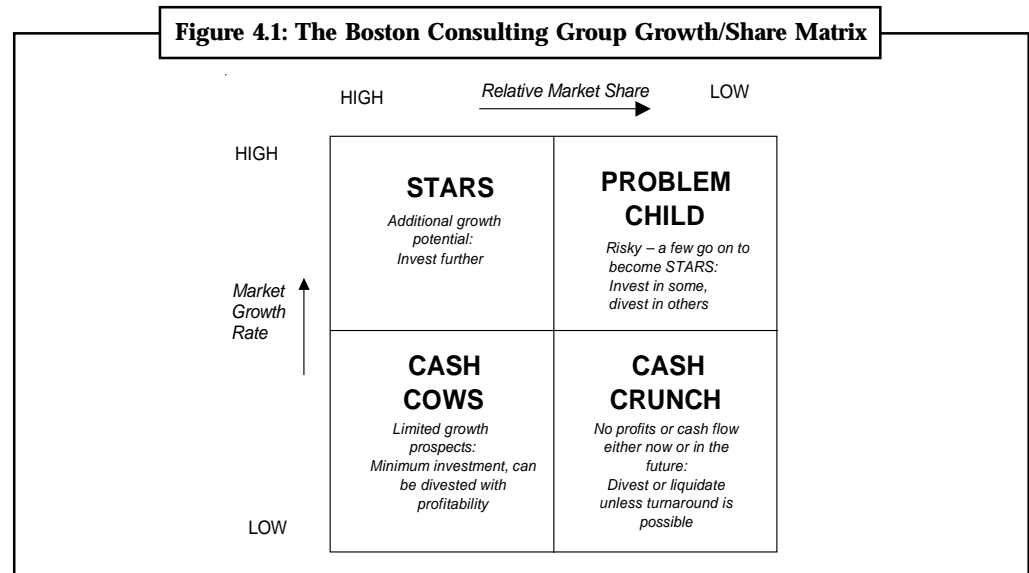
*Example:* Ratan Tata and his Board of Directors at Tata Sons makes the decision that the Tata Group would focus on infrastructure, steel, automobiles, telecommunication, information technology, hospitality, tea and chemicals. The decision to exit from FMCG (TOMCO, Lakme), liquor and office products (Forbes, Forbes & Campbell), etc. were made at this level.

2. **Business-unit level strategic planning:** Decisions that affect an individual SBU as a whole are taken at this level. Thus, the decision for Taj Hotels, if ever so taken, to grow by acquisition and not just by organic means will be taken at this level.
3. **Functional-level strategic planning:** This will affect the different functions of an SBU.

There are some models which are often used for making marketing strategy. We will discuss them one by one in subsequent subsections.

### 4.1.1 Boston Consulting Group Matrix

This matrix was developed by the management consulting firm Boston Consulting Group (BCG) almost thirty five years back. A service firm uses this grid to categorise its SBUs or its products as Stars, Cash Cows, Problem Children (or Question Marks) and Cash Crunch (or Dogs). The parameters of classification are market share relative to its competitors and the growth rate of the industry of the respective SBUs.



- Stars are those SBUs (or service products) which are in a high growth rate industry (like for example, BPOs) and whose relative market share is also high (like Delhi based IBM-Daksh). They would require a lot of support from the service firm in terms of resources to remain competitive and gain market share.
- Cash Cows are SBUs (or service products) that are in low growth or mature industries but have relatively high market shares. This could be due to their early presence in the market. Whenever any industry has a decline, stars transform into cash cows, are able to retain their customers and their loyalty, and effectively have very low marketing costs. Thus cash cows rarely invite additional investment and are only “milked”.
- Problem Child (also called question marks) is those SBUs which have doubtful future. The manager can neither predict a rosy future for them nor a definite death. The SBUs have low relative market share but the industry in which they are is doing very well and has high growth rate. It seems that while their competitors are doing well, they themselves are not doing so well overall. It speaks of their non-competitiveness presently. The management has a choice in its decision: it can give more support by way of resources and hope for a revival of its fortunes or withdraw support and kill the SBU, cutting losses while it can. The danger lies in the fact that at a future date, both the decisions could be proved wrong: the first could make the firm suffer opportunity costs, while the second, opportunity lost.
- Cash Crunch (also called Dogs) is the category applicable to those SBUs who are neither doing well themselves vis-à-vis their competitors (reflected in very low market shares), nor is their industry growing (reflected in very low growth rate).



*Example:* The south based NEPC group of Khemkas had started an airline with the same name. The SBU started functioning in the mid 90s, when the travel boom was a ‘forever’ promise that ended with a whimper. Neither was the air travel industry – especially inland traffic – growing nor was NEPC performing well. It resulted in a lot of bankruptcy and closures (Damania Airways, East West Airlines, Span Airways, etc.) including NEPC Airlines.

**Uses:** Service firms can use the BCG matrix to build and develop market share for their SBUs. It is mostly used to allocate and reallocate limited resources to the different SBUs at the corporate level strategic planning. The service firm should go in for a balanced portfolio of SBUs (or products) and it is imperative to include stars and problem children as a part of its portfolio-mix, exclude cash crunch (by divesting) and harvest Cash cows.

**Limitations:** BCG matrix is a useful strategic tool but is overtly simple and the limitation is due to the dependence on just two factors to determine whether an SBU deserves allocation of resources or not. Secondly, it was developed in US and is useful for service firms functioning in a mature, market-oriented environment. It may not be so suitable for mixed economies like those of the newly liberalised East Bloc countries, and others, including India, Sweden, etc. The Hungarian economist, Magdolna Csath has modified the BCG matrix by using two different parameters: environmental opportunities and a service firm’s competitive strength instead of industry growth rate and market share respectively. The model is recommended for assessing a service firm’s present as well as desired SBUs or product portfolio.

#### 4.1.2 General Electric Business Screen

This model is also used for allocating limited resources amongst a service firm’s SBUs or service products, and then developing marketing and corporate level strategies for them. General Electric developed the business screen with the help of consulting firm McKinsey & Co. which builds on the limitations and drawbacks of the BCG matrix.

**Notes**

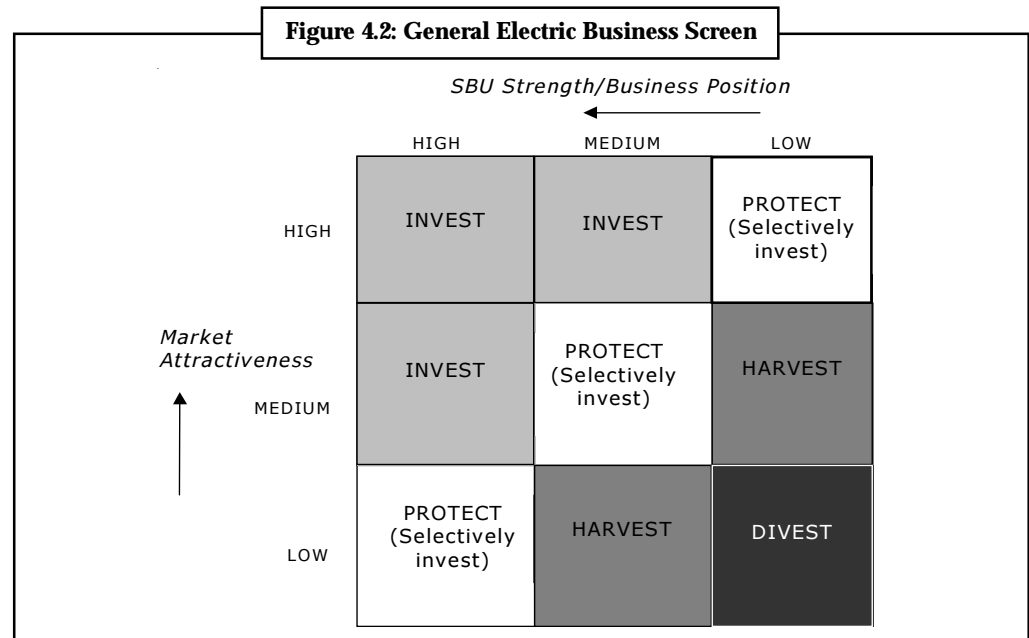
The business screen uses two factors – market attractiveness and business position/SBU strength – to classify SBUs or products in its portfolio. Both the factors seem to be subjective but have various criteria which help the SBUs/products get rated:

**Market Attractiveness**

- Market size
- Market growth rate
- Market entry barriers
- Competition – number and type of competitors
- Technological requirements
- Profit margins, etc.

**SBU Strength/Business Position**

- SBU size
- Market share
- Research and development capabilities
- Power or strength of differential advantage(s)
- Cost controls
- Production capabilities and capacities
- Management expertise and depth, etc.



The ratings of the SBUs are arrived at quite systematically:

- Criteria are assigned weights
- Each SBU/product is rated with respect to all criteria

- Overall ratings are calculated for all SBUs/products
- Each SBU/product is then rated as high, medium or low according to market attractiveness and then business position/SBU strength.
- Different service firms in actuality have different criteria, which can be incorporated in their analytical process.

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After the ratings, the SBUs or the products are plotted on a  $3 \times 3$  grid. The location on the GE business screen will indicate to the service marketer the evaluation of the SBU or the product and accordingly resources can be allocated. Given below are the location and the appropriate strategy:

**Upper left cells and Invest strategy:** Any SBU in this cell is in the most advantageous position of having high market attractiveness in terms of market opportunity and high business strengths, capability, etc. and who are likely to seize market opportunities. These SBUs or products should receive resource support from the service firm to strengthen and build them.

**Three cells running diagonally from lower left to the upper right of the screen represent a Protect strategy:** The SBUs and products in these cells generate cash for the service firm which can be channeled to other SBUs/products. Therefore, it is essential to follow a defensive strategy of protecting a cash generator. These SBUs should also be duly supported with selective investments.

**Two cells just below the diagonal cells represent the Harvest strategy:** SBUs or products in these two cells are not very strong in their competencies and neither do they possess attractive markets, forcing decision makers to deny those additional resources, while electing to maximise returns with the present allocation. If there is an opportunity for a profitable sell off, it should be seized with both hands.

**Lower right cell and the Divest strategy:** SBUs or products in this cell are poor performers, having no attractive market nor possessing enough resistance to enable a turnaround. They are to be disposed of from the portfolio of the service organisation.

Normally, service firms do not get hemmed in by any one strategy, usually choosing to follow a combination of them as far as resource allocation is concerned.



*Did u know?* The House of Tatas bolstered and reinforced their information technology SBUs with resources and marketing supports and also successfully participated in the disinvestments of CMC and VSNL (Invest). They have selectively invested in steel, infrastructure, telecommunication and automobiles (Protect). Lakme and TOMCO have been profitably sold to FMCG major Hindustan Lever Limited (Harvest), while Tata Textiles has been liquidated (Divest). The resources generated from the sell offs through Harvest and Divest have been utilized in acquiring companies like VSNL and CMC and investing in new areas of retailing through Tata Retail Enterprise (TRENT)/Westside.

### 4.1.3 Michael Porter's Strategies for Competitive Advantage

For strategies at the SBU level, Michael Porter urges service firms to first assess scope of target market and differential advantage(s) and then choose the appropriate strategies. He has propounded three approaches to give a service firm a decisive "competitive advantage": cost leadership, differentiation and focus. *Cost Leadership* is a competitive strategy where a service firm seeks to be a low cost producer, satisfying a broad market base with a standard service product. This does so by aggressively pursuing operating efficiencies and then under-pricing the competition. Porter recommends efficient facilities, systems and processes, tight cost and overhead controls, minimization of costs in R&D, advertising, sales and distribution, service etc.

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*Example:* Wal-Mart has made a virtue of being a low cost retailer, aggressively seeking operating efficiencies in logistics, supply chain and driving down the prices of its merchandise that were sourced from its vendors. The low costs enable the giant US retailer to get a competitive advantage by offering lower prices, driving the competition out of business and posting handsome profits derived from volume business.

Differentiation strategy for a service firm involves developing offerings which are perceived as unique by all the six markets in the industry. The creation of a distinctive image of the firm's service products requires meticulous planning, usage of high quality processes, innovative designs, or leveraging on unique product attributes and features. This uniqueness would make the service firm to charge a premium price and target a broad or a very narrow market.



*Example:* Dilip Chhabria, CEO and chairman of DC cars, the supplier of innovative and uniquely designed cars (on existing platforms), can charge a premium on designs and execution service. The construction and housing firms of Hiranandanis, and architect Hafeez Contractor demand (and get) a premium for their homes and designs which boast of high and consistent quality (the former are amongst some of the few construction firms who as a policy do not have 'sample flats' to convince customers). Nordstrom's is always associated with high quality service while Bose Corporation is famous for its high fidelity and high technology audio systems.

Focus strategy is adopted by a service firm or the SBU when it concentrates its entire attention on a very specific customer segment and their needs. The service firm then services this segment with uniquely designed offers. The target segment can be specific by:

- geographical location (FM radio services, newspaper services, Bank of Madura which was predominantly in South India before being merged with ICICI Bank, etc.),
- specialised needs of the customers (a not-for-profit service organisation managing an old age home, Monginis franchising system to cater to life-style foods like cakes, pastries, patties, croissants, etc. prosthesis and medical aids like Jaipur Foot marketing company, ICICI starting a subsidiary only for shipping needs through SCICI which got swallowed in the reverse merger, RBI hiving off its Agricultural and Rural Development Cell, ARDC, into a full-fledged institution National Bank for Agriculture and Rural Development, NABARD),
- A segment can be a customer group by age (teenagers), mother and child market (Johnson & Johnson), outdoor and sporty types (Countryside, the adventure sports company).

**Figure 4.3: Porter's Competitive Advantage Strategies Model**





Focus strategy helps a service firm to concentrate on satisfying the needs of its target customers better. They can use either the Differentiation or Cost Leadership strategies or both, within the overall Focus strategy. Pressman is into financial services advertising while Mudra Institute of Communications, Ahmedabad (MICA) is a B-school for advertising industry. SOTC, before being taken over by Swiss travel management company Kuoni was only into outbound tour packages. The reasons ranged from better predictable and manageable infrastructures abroad to better understanding of the Indian customers and their preferences. They were therefore able to uniquely position themselves with their “Ghar ka khana” (‘Food like at home’) promotions.

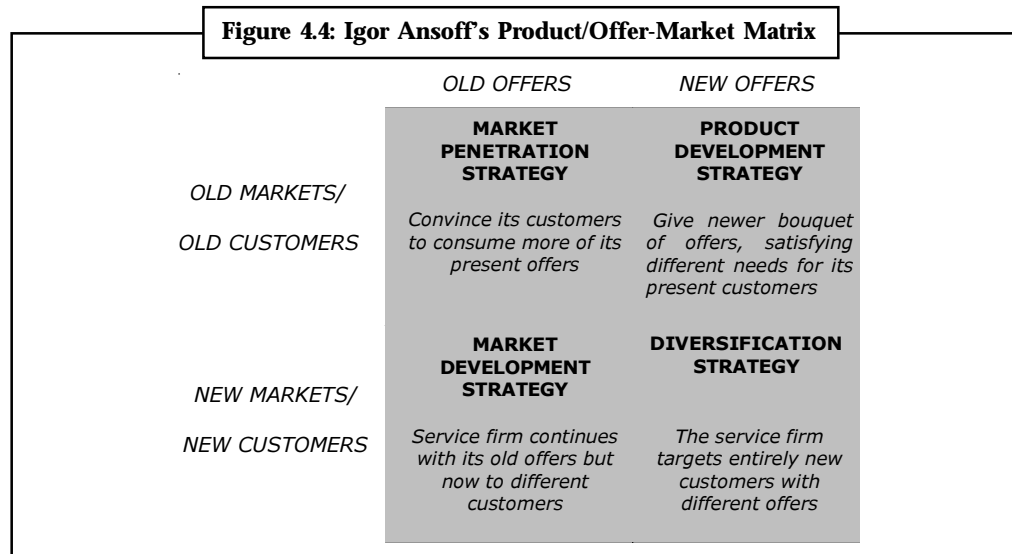
Notes



*Caution* BCG Matrix, GE Business Screen and Michael Porter’s Model is used for Corporate and SBU level planning as well as for marketing strategies.

#### 4.1.4 The Ansoff Grid

One other growth model that is useful for marketing strategies of a service firm is the Product-Market Growth Matrix proposed by Professor Igor Ansoff.



Growth becomes an objective for the service firms as it will garner revenues, make it competitive and strong - and get profits. Growth can be achieved only with greater understanding of the service firm’s markets and its offers – and deliberately and methodically utilising them as growth drivers. This is the very basis of the Ansoff Model which outlines four growth options for the service firm.

Thus the Ansoff model takes into account a service firm’s offers and its customers. It splits the offers into those which are at present a part of the bouquet of the service firm and those which are absolutely new; similarly it categorises the service firm’s customers as those who are at present patronizing its services and those who are the newly targeted. Ansoff could elaborate on four different strategies to be followed by the service firm to grow. They are:

**Market Penetration Strategy:** Here the service firm concentrates on growing by trying to convince its present cache of customers into consuming more of its services – by increasing their appetite.



*Example:* A cell phone operator will try to segment its market by usage – heavy users, moderate users and light users of its cell phone service. It will then try to convince all of them,

**Notes**

especially the medium and light users to talk more and use other services like SMS, games, downloading of ring tones and more.

Similarly, when ICICI Bank mines the data base of its Infrastructure 'Safety' Bonds customers and asks its marketing personnel to convince them to use its credit cards, if they haven't done so yet, or any other products like home and personal loans, then it becomes a classic case of market penetration strategy. If the universal bank devises some promotion schemes which would increase the customer's loyalty by buying maximum offers (like general insurance, bonds, credit cards, retail bank services, e-services, personal and home loans, etc.) from it, like a one-stop shop, then it is pursuing market penetration strategy to grow. It is targeting its present customers with its full bouquet of offers, including new offers.

**Market Development Strategy:** This strategy is adopted by a service firm when it perceives that its old market is drying up, that its old customers are having a change in their preferences. The service firm, being convinced that the offers have potential, and then continues to offer its old bouquet of service products but now to an entirely new set of customers. Service product repositioning will also come under this marketing strategy. The newly targeted customers will perceive these offers to be new (which is actually the correct definition for new products) and therefore the marketing promotions and communication will consist of components of persuasion, education and awareness.



*Example:* Holiday destination managers like Goa beach tourism marketers and Maharashtra Tourism Development Corporation looked at the Indian domestic tourist market for its 32 beach resorts after the inflow of foreign tourists slowed down to a trickle after 9/11.

What happens if the service marketer finds its present market stagnating (not growing) and therefore looks to newer markets, alongside its old ones? This is called a market development strategy. SBI began introducing special service branches for its high net worth customers in addition to servicing its old customers. Construction and housing major Hiranadanis of Mumbai have got into retailing (Haiko, The Loft), game parks ('Hakone'), and education (ICSE schools) and are offering these services to customers of its homes. Business schools trying to attract industries for executive development programmes (Executive MBA) is another example of market development strategy.

**Product Development Strategy:** The service firm develops new offers/products for its old/present customers. Having successfully created customers (an expensive proposition), come to know them and their preferences well and garnered their trust; the company then tries to satisfy their additional needs for services by offering it themselves. From the customer's perspective, the trust and familiarity is already made, quality of the service transaction for the previous service has already been experienced and the encounter has been positively judged (most important for services, due to the inherent intangibility of the service offer). The loyalty of the old customers makes them try out their new service offers while for the service marketer; it is a good growth option at lower costs.



*Example:* SBI gets into life insurance and bancassurance, credit cards, home and personal loans, etc. targeted to the old customers. A pharmaceutical company like Wockhardt might offer medicines for cardiac and kidney cases and now it has opened a heart hospital in Mulund, Mumbai and Bangalore, a kidney hospital in Kolkata, etc. Kotak Mahindra, the non-banking finance group has stepped into insurance (OM Kotak) and retail bank, to offer new services for its old clients.

**Diversification Strategy:** This is one of the riskiest strategies that a service firm can adopt. This is due to the fact that the firm neither can bank on its tried and tested offers nor on its market

standing. It really is stepping into unknown territories. Diversification strategy is mostly adopted when the service firm feels that its growth hunger is not going to be satisfied in the present industry or service product and by tracking the present customers, and when it has plenty of surplus funds.

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*Example:* Mahindra group, which are into manufacturing of automobiles, venturing into the realty business through the 'white knight' acquisition of GESCO, and further into Mahindra holiday resorts and time share service business are all examples of diversification strategy. All the above growth models are used by service firms to allocate and reallocate resources for its SBUs and its different offers/service products. They have been criticized for being overtly simple but have also been praised for their utility.

#### 4.1.5 Marketing Strategy at Functional Level

Strategy for a marketer would imply a plan of action that is the prerogative of top marketing management, is usually long term and comprehensive in concept, and affects the whole organisation and the firm's whole market. It consists of the following activities:

- Conduct a situation analysis
- Develop marketing objectives
- Select target markets, after appropriate segmentation and measure market demand
- Determine positioning and differential advantage(s)
- Design strategic marketing mix (es)

**Situation analysis** consists of the following sequential steps:

1. Analyse and evaluate the past marketing plans and forecast the probable future impact on them. This will serve as a guiding tool for revision of the plans and save the firm from 'reinventing the wheel' and avoid such traps as 'change for change's sake'. But appropriate introspection could make firms abandon many 'holy cows' concepts and go for fresh and innovative change of plans.
2. Evaluate the external as well as internal environment factors of the service firm. The external environment includes political, economic, socio-cultural, legal and technological factors. The internal environmental factors include such marketing resources as quality of personnel (their skills and experience), consumers and customers of the firm, R&D capability including the power of information management (knowledge management), financial health (including access to funds), etc.
3. Analyse the market opportunity available for the service firm. It is a prerequisite for the service marketer to make an opportunity analysis before venturing into a market. The firm could be offering a new service product or expanding its existing business into a new area or market.

Market opportunity for a service firm has two important implications:

- ❖ There is a gap between demand and supply
- ❖ The existing market is not satisfactorily served by existing players.

Market opportunity identification involves the analysis of the following:

- ❖ Size of the market – present and potential
- ❖ Marketing strategies of the competition and the depth of their value benefits

**Notes**

This can be illustrated thus:

- ❖ Marketing programmes required to successfully penetrate the desired market
  - ❖ identifying the key success factors in the service industry and aligning them with the service firm's strengths and weaknesses.
4. Analyse the previous marketing strategies used to target the customer groups and the key indicators of performances or the Key Result Areas (KRAs). Peter F. Drucker identified eight KRAs:
- ❖ Market Share
  - ❖ Innovation
  - ❖ Productivity
  - ❖ Physical and Financial Resources
  - ❖ Profitability
  - ❖ Manager Performance and Development
  - ❖ Employee Performance and Attitude
  - ❖ Social Responsibility
5. Perform a SWOT assessment by identifying and evaluating the service firm's areas of strengths to leverage on, overcome or dilute its weaknesses, seize the opportunities and avoid threats or find ways and means to meet challenges. Strengths and weaknesses are internal component of a service organisation's process, pointing at its capabilities and competencies.



*Example:* 13,500 branches of State Bank of India could be its strength, an indication of its nationwide reach. This is one of the reasons for GE to go for a tie up with SBI for its card business. Its large size could also be considered as strength. But its militant employees and the accompanying poor customer service could be a weakness. Opportunities and threats/challenges are external components for the functioning of the service firm and always originate from outside it. Thus, for SBI, opening up of the insurance sector and bancassurance as a product offer could be opportunities. Life Insurance Corporation of India, from the public sector and other private insurance players like ICICI and HDFC would constitute threats and challenges.



*Task* Perform a SWOT analysis for LIC of India and FedEx.

Outlining Marketing Objectives is the next step for Functional Level Strategic Planning - for marketing. Marketing strategies should be in synchronisation with SBU goals and the SBU strategy willy-nilly translates into marketing strategy for the service firm.



*Example:* If Thomas Cook (SBI owns over 15% of its equity) decides to increase its profitability by 15% (SBU goal), the strategy could be to reduce costs by 12% - including inside the marketing department. Ergo, it becomes Thomas Cook's marketing goals and objectives. The marketing strategy could be to shift sales accent from its employees to Direct Sales Agents (DSAs) or Travel Agencies. In effect, the strategy for marketing would be to stress more on outsourcing of sales, and shift from salaries to commissions.

The marketing objectives should be prioritised by urgency and importance. Each objective then should be assessed for its impact on the respective marketing area and the service firm's competitiveness. It is only after this exercise that resources should be allocated to each plan and objective.

**Notes**

## **Self Assessment**

Multiple Choice Questions:

1. Which of the following decisions is most likely to be taken at the corporate level?
  - (i) Marketing strategy to launch a product
  - (ii) Hire new front line employees
  - (iii) Designing the mission and vision of the service organisation
  - (iv) Testing the service delivery process
2. .... are SBUs that are in low growth or mature industries but have relatively high market shares.
  - (i) Stars
  - (ii) Cash cows
  - (iii) Questions marks
  - (iv) Dogs
3. In ..... strategy, the products or SBUs are disposed off from the portfolio of the service organisation if they are not performing well.
  - (i) Invest
  - (ii) Protect
  - (iii) Harvest
  - (iv) Divest
4. .... strategy is adopted by a service firm or the SBU when it concentrates its entire attention on a very specific customer segment and their needs.
  - (i) Cost leadership
  - (ii) Differentiation
  - (iii) Focus
  - (iv) Invest

## **4.2 Service Recovery Strategies**

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

By adopting a service recovery system, service organisations get another opportunity or a second chance to correct any mistake that occurred during the delivery of service in the first instance. If the problem is resolved and the customer is satisfied, he may give up his attempts to switch to competitors. If the company continues to provide high quality service, it might –

**Notes**

succeed in earning a loyal customer. This loyal customer could tell his friends and relatives how the organisation attended to his concerns and solved his problems. This will help develop a positive image about the company among prospective customers and serve as word-of-mouth publicity for the business. While developing an effective developing a service recovery system, the following guidelines should be kept in mind:

### **4.2.1 Track and Anticipate Recovery Strategies**

Service firms should attempt to know if any customer of theirs is dissatisfied with their service or any other aspect of the firm. Periodic customer surveys and regular customer interaction can help the organisation identify any failures on their part. There may be some customers who are dissatisfied with poor quality service but do not complain to the firm or voice their problems openly. Such customers may reduce their business interactions with the organisation and may eventually discontinue utilising the services of the organisation. Organisations can track such customers with the help of technology and attempt to communicate with them.



*Example:* A private marketing company which regularly utilises the services of a particular hotel for the business travel of its employees starts to utilise the services of another hotel, at the behest of its employees. If the first hotel had a proper database management system, it would have been able to notice that the business from a corporate account had been declining and can take the necessary steps to revive the account.

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

The management should continuously analyse the complexities involved in the service process, and identify the areas where there is a possibility of failure or delay. This proactive approach can help the management prevent some of the customer related problems. It should develop effective mechanisms to deal with any problems that may still arise, and solve them immediately to the customer's satisfaction.

### **4.2.2 Solve Problems in Quick Time**

One of the main reasons for customers shying away from conveying their problems to the company is that they feel that it will be of no use. They might have formed this opinion based on past experience or on hearing it from friends. Some customers, however, communicate their grievances to the company, expecting a prompt corrective action. When the company fails to meet the customer's expectations and fails to sort out the issue, he loses confidence in the company and its services.

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

### 4.2.3 Adequate Training to Front Line Employees

Notes

Organizations should educate employees about the need to serve customers to their satisfaction. They should be trained adequately to offer error-free services consistently. And they should also be trained to deal with those precarious situations when their efforts to offer quality service to customers fail.

Employees should be in a position to notice any problems or mistakes that occur in the service process as soon as possible, bring that to the notice of concerned person, and initiate the service recovery process. If the customers blame them for delays or flaws in service, they should not take it personally and get miffed, but should politely accept their responsibility for the inconvenience caused. They should assure the customers that the mistake will be rectified and any losses incurred by them will be compensated.

#### Self Assessment

State True or False:

5. Service recovery strategies aim at dealing with difficult customers.
6. Service firms should attempt to know if any customer is dissatisfied with their service or any other aspect of the firm.
7. Companies should encourage their customers to complain to them in case they face any problem in the quality or delivery of service.
8. The customers who complain actually give a second opportunity to the organisation to correct its mistake.

### 4.3 Managing Demand, Supply and Productivity

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

An organisation has to track and sketch the demand level for its services at specific time periods. If an organisation maintains a customer database and a record of varying demand levels over a period of time, this can be done with ease and accuracy. Companies which do not have a computerised database can adopt more informal methods. Companies should track the demand levels regularly viz. daily, weekly and monthly.

The demand level for some services varies seasonally; therefore, organisations should gather and record information on a periodic basis to predict the future demand levels. In some cases, it might be relevant to observe the demand levels even on an hourly basis.



*Example:* Tracking the demand for a restaurant's or a fast food centre's services on an hourly basis might be useful in understanding the demand patterns.

There are some services for which demand patterns can be easily predicted, while patterns for some other services can be understood only after drawing the demand levels on a chart.

#### Demand Patterns

After capturing the data on demand levels in the form of charts, an organisation should and observe the charts for predictable demand patterns.

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*Example:* The patterns over a day on an hourly basis, over a week on a daily basis or over a year on a monthly basis should be captured, to meet the organisational needs.

In some services however, predictable patterns can be noticed during regular or specific periods.



*Example:* The crowd at theme parks, movie halls, and restaurants would be large during the weekends or holidays. The crowd in movie halls can also vary according the time of shows. The evening shows usually attract more crowds.

Similarly, employees tend to invest more in various financial services when it is time to file their tax returns and as a result, the demand for financial services increases during that period.

After an organisation has identified a predictable cycle, it should further try to analyse the reasons for these fluctuations in demand. These causes can be anything ranging from seasonal conditions to date of payment of salary or wages, and from vacation time for schools to tax payment or refund cycles.



*Example:* Some discotheques lower the price of entry during weekdays to attract people during those days.

Some of the demand patterns show predictable cycles, whereas, others are random or adhoc in nature. However, causes associated with these demand patterns can be identified most of the times.



*Example:* The impact of changes in weather conditions on entertainment and recreational services may not be predictable. Similarly, random demand patterns for services like healthcare and insurance have no specific pattern or style except that the demand is highly visible when there is an epidemic spread or calamity.

Capacity of a service firm is similar to the supply by firm manufacturing products.

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

- **Time:** The main constraint for expanding the capacity or increasing supply in some service businesses is the availability of time with the service provider. The income of professionals like lawyers, doctors, consultants, etc. depends on their ability to use their time in a productive manner.
- **Labour:** Large service firm hire employees to offer services to the customers. They face capacity constraints in the form of availability or unavailability of labour during service demand. There might be situation where the firm has excess demand and it doesn't have equipped labour to carry the process. Or it may not be feasible for the service firm to hire additional workers in a competitive market which exhibits low demand during the off season.
- **Equipment:** Service organisations that require equipment to carry out their operations may face capacity constraints due to the limited equipment available with the service provider.





*Example:* A dentist may not be able to provide appropriate services to a patient because unavailability of modern machines.

- **Facilities:** Some service organisations face capacity constraints due to limited facilities available with them.



*Example:* A restaurant may not be able to accommodate extra people due to unavailability of tables or an airline might not be able to provide tickets to passengers because of unavailability of vacant seats.



Caselet

### **Case: Opening a Hair Salon Business**

**F**or customers, using an appointment-driven service like a hair salon means waiting. While waiting is the expectation of customers, the nature of the waiting experience can make a major difference in what they think about your salon and even overshadow the services you offer.

Start your planning of waiting line management by considering how you would like to be treated when waiting. Look also at what competitors in your local market, both for ideas and for mistakes. If you have a location in a mall or shopping centre, it can be easy for customers to shop or take care of errands elsewhere while they wait their turn. The downside of this for your business is that you can lose out on further engaging your customers during that time, whether by having them look at hair style options in magazines or brochures or consider the products you have for sale. Also, you run the risk of waiting for the customer if they have wandered too far when you are finally ready for them.

Having a comfortable and even entertaining waiting room does require investment and upkeep, but it can be a valuable tool to improve the customer waiting experience. Product displays, TV screens, magazines, and other items can improve this space, as can a water dispenser or other refreshment options. If you serve children at your salon, the needs of a waiting room take on a whole new character. Parents will be extremely appreciative if you take care to provide activities and entertainment to occupy their kids as they wait, and may not mind a longer than average wait as it will be more quickly for them.

In any case, it is important to have your staff set clear expectations for customers as to how long their wait will be and then deliver on those expectations. Customers hate not knowing how long they will have to wait and being told one wait time and then another. They may leave feeling your staff either don't know what they are doing or are deliberately misleading them. Either possibility is very dangerous to your salon's reputation.

The service you offer to customers includes every interaction, from the setting of the appointment to all of the time the customer spends at your salon, including the wait. Your plan for the waiting experience will influence your operations plan and financial assumptions and should not be neglected as part of your salon's business plan.

**Source:** Article by Eric Powers (ezinearticles.com)

Notes

### 4.3.1 Altering Demand to Match Capacity (Supply)

A service firm should make efforts to understand the demand patterns and its capacity constraints to effectively formulate strategies that can match demand and capacity. To match its demand and capacity, there are two options for an organisation. It can either opt to shift the demand to meet the capacity or to increase or decrease the capacity to match the demand fluctuations.

When the demand for a particular service is higher than its capacity at a given point in time, organisations adopt the demand shift strategy wherein they shift their customers to use their services at a later period when the demand is low.



*Example:* The telephone tariffs are low in the early mornings and late nights to shift some of the demand from the peak hours to these slots.

However, some customers may not be willing to shift and in these cases, an organisation will lose business as it is unable to accommodate these customers.



*Example:* A crowded restaurant that is operating at its full capacity cannot accommodate more people. These customers might go to another restaurant, which means lost business for this restaurant.

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

#### A Variation in the Original Service Offer

Here, an organisation adopting this method, changes its service offering to suit the seasonal, weekly, or daily demand fluctuations.



*Example:* Caterers who serve at marriages may choose to serve at birthday parties or business gatherings during the non-marriage season.

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

#### Communicating with Customers

A service firm must inform the customers about the peak rush hours that will help them understand the pattern and shift their business hours accordingly. Some customers may not be interested in conducting their business during peak hours as the service delivery may get delayed or the service might not meet the expected standards.



*Example:* Bankers are usually very busy during first few days of the month and on Mondays because banks reopen after a day's leave, so they can inform the customers about this, some of them may prefer to carry out their transactions with the bank later in the month and on other days than Monday.

### Altering the Timings of Service Delivery

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*Note* Service organisations should note the periods when the customers need to or want to deal with the service provider. Maintaining business hours accordingly would help the customers as well as the service provider.



*Example:* On Sundays, usually there is heavy rush at salons, therefore, they can start their operations a bit early and close late on Sundays.

### Difference in Prices

Some service organisations may choose to vary their prices with the intention of shifting demand from high-demand periods to low-demand periods.



*Example:* Theatre owners often reduce the rates of morning shows to attract crowds in that show or fast food joints reduce the rates during noon.

However, this call for cautious approach by companies as the customers might expect the same prices during their next interaction with the service company. Also, there is the danger of the service firm ending up attracting other segments instead of their target market segment.

### 4.3.2 Altering Capacity to Meet Demand

Some of the strategies are:

#### Employ Part-time or Contract Workers

Organizations focus on recruiting part time or contract workers instead of full-time employees in order to meet the changes in demand.



*Example:* Retail outlets employ more floor executives during the high demand season like festival season and consultants hire additional staff during the financial year-ending when there is a peak demand for their services.

#### Outsource

This is a very popular method employed by today's organisations to handle demand variations. When firms feel that hiring additional workers to meet a temporary increase in demand is too expensive, they employ the services of other firms that specialise in performing the required functions or tasks. This is advantageous as an organisation can save money and time on training the new employees and they do not have to bother about excessive manpower when their business slows down during a slack period. For example, organisations outsource their recruitment activities to HR consultants.

#### Share Facilities or Rent Equipment

Another approach that can be adopted by organisations is to share their facilities to meet the variations in demand.

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*Example:* A school can be rented out to conduct coaching classes to FIITJEE or IMS on Sunday when the school is closed for students.

Looking at it from another angle, a facility or equipment can be obtained on rent as it is not feasible to purchase new equipment that would not be used at other times.



*Example:* A small time caterer might rent large cooking utensils instead of purchasing them if he gets a big contract for a short period.

**Schedule Downtime during Periods of Low Demand**

Organizations should schedule their maintenance, repair and renovation activities during periods of low demand so that the equipment and facilities can be stretched beyond capacity during high demand periods. This approach should be employed for workers also by giving them time to relax.



*Example:* A restaurant can conduct its maintenance work when it is empty at noon so that the restaurant looks good when customers come in.

**Cross-Training Employees**

This involves training employees to perform other tasks apart from their routine tasks, so that underutilisation of labour does not take place in the organisation. These multi-skilled employees can be shifted to tasks that are in high demand.



*Example:* In a salon, employees who are specialised in manicure can be given training on pedicure so that they can also service those clients in case of heavy demand of pedicure.

**Modify Facilities or Move Equipment**

Facilities can be modified innovatively during peak or slack demand periods.



*Example:* During summer holidays in schools, swimming pools can be used as a facility to coach people in swimming.

On the other hand, some equipment can be moved from place to place to deliver the services at the consumers' convenience.



*Example:* Mobile bill payment option allows a customer to pay the bills through mobile without having to go to the designated place.



*Task* Contact some of the service providers in your locality (salons, restaurants, coaching classes, cable network providers, etc.) and find out what they do to manage demand and supply.

Managing productivity is a difficult task due to the multifunctional nature of service jobs.



*Example:* In fast food outlets, the personnel perform various tasks like preparing food, delivering the food to customers; giving them all possible facilities to make the visit memorable and enjoyable and accepting payment from the customers.

Stock management and cleaning and maintenance work may also be a part of the work of personnel in some service firms. The multifunctional nature of the tasks allotted to service personnel makes it difficult to measure, monitor and improve the performance. So it is a complex task.

Notes

### Self Assessment

Fill in the blanks:

9. .... can be defined as the ability of a service organisation to meet its demand and the extent to which it can do it.
10. A courier service may not be able to deliver couriers to a specific location due to lack of distribution service. This is a constraint related to .....
11. A bank's branch cannot handle two credit card customers at a time because they have only one employee handling that division. This is a constraint related to .....
12. If an educational institute employ visiting/part time faculties from outside to take classes, they are altering ..... to match .....

## 4.4 Managing Waiting Lines

The queuing system consists primarily of the waiting line(s) and the available number of servers. Factors to consider with waiting lines include the line length, number of lines, and queue discipline.

**Length:** In a practical sense, an infinite line is simply one that is very long in terms of the capacity of the service system.



*Example:* Infinite potential length is a line of vehicles backed up for miles at a bridge crossing and customers who must form a line around the block as they wait to purchase tickets at a theatre.

Gas stations, loading docks, and parking lots have limited line capacity caused by legal restrictions or physical space characteristics. This complicates the waiting line problem not only in service system utilisation and waiting line computations but also in the shape of the actual arrival distribution. The arrival denied entry into the line because of lack of space may rejoin the population for a later try or may seek service elsewhere. Either action makes an obvious difference in the finite population case.

**Number of Lines:** The term multiple lines refer to the single lines that form in front of two or more servers or to single lines that converge at some central redistribution point. The disadvantage of multiple lines in a busy facility is that arrivals often shift lines if several previous services have been of short duration or if those customers currently in other lines appear to require a short service time.

**Queue discipline:** A queue discipline is a priority rule or set of rules for determining the order of service to customers in a waiting line. The rules selected can have a dramatic effect on the system's overall performance. The number of customers in line, the average waiting time, the range of variability in waiting time, and the efficiency of the service facility are just a few of the factors affected by the choice of priority rules.



*Did u know?* The queuing system consists primarily of the waiting line(s) and the available number of servers.

**Notes**

The following are some useful ways to manage waiting lines:

- Determine an acceptable waiting time for your customers.
- Determine a standard acceptable time for which your customers are willing to wait to avail the service. Set operational objectives based on what is acceptable to the customer.



*Example:* In a fast food restaurant, the personnel know that the customer will wait for some time before moving out.

**Try to divert your customer’s attention when waiting**

This can be an effective way of dealing with the issue of waiting line. The service firms these days provide music, a video, magazines, play area for kids, etc. that may help to distract the customers from the fact they are waiting. Customers get involved in these things and don’t complain much about the time they spent waiting.

**Inform your customers of what to expect**

This is especially important when the waiting time will be longer than normal. Tell them why the waiting time is longer than normal and what you are doing to alleviate the queue.



*Example:* A pizza delivery boy can inform the customer that he is getting late because of the bad weather. This will at least give the customer a thought that the service firm is concerned about him.

**Keep employees not serving the customers out of sight?**

Nothing is more frustrating to someone waiting in line than to see employees, who potentially could be serving those in line, working on other activities. If the employees are carrying out any maintenance task or any back office task, he should be kept away from the waiting area so that customers are not able to see him.

**Segment Customers**

If a group of customers needs something that can be done very quickly, give them a special line so they do not have to wait for the slower customers. This has both advantages and disadvantages as the customer who are served quickly in a special line get satisfied but those waiting for long in the other line can get annoyed on seeing that.

**Train your servers to be Friendly**

Greeting the customer by name, or providing some other special attention, can go a long way toward overcoming the negative feeling of a long wait. Rather than servers being told to just “be friendly,” psychologists suggest they be told when to invoke specific friendly actions such as smiling—when greeting customers, when taking orders, and when giving change (in a convenience store). Tests using such specific behavioural actions have shown significant increases in perceived friendliness of the servers in the eyes of the customer.

**Encourage customers to come during the slack periods**

Inform customers of times when they usually would not have to wait; also tell them when the peak periods are—this may help to smooth the load.



*Example:* In a bank, personnel can inform the customers about the heavy load hours and request them to come during slack periods.

Notes

### Take a long-term perspective toward getting rid of the queues

Develop plans for alternative ways to serve your customers. Where appropriate, develop plans for automating or speeding up the process in some manner. This is not to say you want to eliminate personal attention; some customers expect this.



Case Study

### Case: Challenges to Iconic Brands of Starbucks

It is a widely accepted notion that world is indeed flat. Economic boundaries are being demolished. Companies are no longer constrained to their national markets. Internet has become a great leveller of field between companies and customers. Price has yet again taken central stage. And brands are under increasing threats from private labels.

Given such a connected world, how can companies maintain their underlying brand identity in face of worldwide external shocks such as the current global recession? Should brands practice consistency or continually adapt?

Before answering those questions, take a look at one of the world's iconic brands – Starbucks. Starbucks is almost single handedly responsible for creating the concept of a third place between home and work where people can relax, enjoy a cup of coffee and experience the inviting ambience.

Since its founding days in the early 90s, Starbucks has strived to build its brand identity on offering customers a relaxing and enjoyable experience. In addition, Starbucks has also built its brand on things that tend to be out of the box, by consistently defying the conventional wisdom.

When companies were aggressively advertising, Starbucks decided not to advertise. When cost cutting was the dominant paradigm of the industry, Starbucks chose to emphasize non-routine procedures to create excitement among the baristas instead of streamlining procedures to minimise cost. Unlike most other companies, Starbucks made its employees its partners, by offering them stock options and health insurance.

As against rigorous customer surveys Starbucks chose casual and informal chats with customers to gather their overall mood. All these clever strategies have enabled Starbucks to build one of the most iconic brands that has continued to resonate with customers across the world for more than fifteen years. That was until the economic conditions started worsening.

Since early 2008, Starbucks has been forced to bite the dust and succumb to the aftermaths of the recession. Founder Howard Schultz returned as the CEO. Cost cutting and efficiency was made the guiding strategy. More than 800 Starbucks stores were closed in the US alone. For the first time Starbucks invested more than US\$200 million in advertising. And for the first time in its history, Starbucks started price campaigns in select stores to lure customers away from other price competitors such as McDonald's and Dunkin Donuts.

Contd...

**Notes**

These events beg the obvious question. Given such fundamental changes in the macro environment, should iconic brands like Starbucks stay true to their strategic brand vision or continually adapt to regain competitive advantage?

Regaining lost glory and recapturing global brand leadership should be a two-pronged strategy. Iconic brands should strategically manage the dual process of continuous innovation on the one hand and reinforce their guiding strategic brand vision.

**Innovation Drives Strong Brands**

Innovation is a fundamental building block of iconic brands. Leading brands create their corporate strategies with an inherent strategic element encompassing innovation. Such innovation is not limited to bringing new products to markets, but is expanded to innovation in communication (with customers and other stakeholders) and innovation in implementing cost-cutting and efficiency enhancing strategies. Such continuous innovation serves dual purposes.

First, innovation enables iconic brands to refine and redefine their cores in line with the changing needs. Second, innovation allows iconic brands to continually adapt to the changing needs of customers, thereby protecting its competitive advantage.

Innovation should be practiced along with an organisation wide brand vision, which acts as the strategic blueprint of the brand's path. Such strategic vision should not only delineate the boundaries of the brand but also should chart out the possible strategies of the brand in order to attain and maintain brand leadership. Commitment to such brand vision allows companies in tough situations to chart out different strategies (such as either cost cutting or enhancing value proposition) but will ensure that the brand does not deviate from its strategic charter. As innovation prepares the brand to adapt to changing circumstances, brand vision can guide the brand not to stray away from the core brand promises and dilute the core brand identity.

Iconic brands can effectively regain their brand leadership by implementing this dual strategy. Starbucks has already begun on this path. It is innovating in reaching its customers and enhancing efficiency but maintaining consistency in its core brand promise of providing an enjoyable experience.

The changing global economic environment has challenged many global iconic brands. This dual pronged strategy can not only help these brand protect their brand leadership but can also create a sustainable path to ensuring long term competitive advantage.

**Question:**

How did Starbucks use innovation to handle growing competition?

**Self Assessment**

State True or False:

13. The number of customers in waiting line often affects the quality of service delivery.
14. As a service provider, you should try to engage customers who are in queue in other things like television or magazines.
15. A service provider should never tell the customers why the waiting time is longer than normal.
16. A service provider should inform the customers about the time when the waiting time is usually less.



## 4.5 Summary

## Notes

- A service firm has to take business decisions at three levels: corporate level, business unit level and functional level. Firm's decision on the marketing strategy is based on BCG Model, GE matrix Model, Porter's Model and Ansoff's Grid.
- A service firm uses BCG Matrix to categorize its SBUs or its products as Stars, Cash Cows, Problem Children (or Question Marks) and Cash Crunch (or Dogs). The parameters of classification are market share relative to its competitors and the growth rate of the industry of the respective SBUs.
- GE model is also used for allocating limited resources amongst a service firm's SBUs or service products, and then developing marketing and corporate level strategies for them.
- For strategies at the SBU level, Michael Porter urges service firms to first assess scope of target market and differential advantage(s) and then choose the appropriate strategies.
- The basis of the Ansoff Grid is that growth becomes an objective for the service firms as it will garner revenues make it competitive and strong – and get profits. Growth can be achieved only with greater understanding of the service firm's markets and its offers – and deliberately and methodically utilising them as growth drivers.
- Strategy for a marketer would imply a plan of action that is the prerogative of top marketing management, is usually long term and comprehensive in concept, and affects the whole organisation and the firm's whole market.
- Service recovery is a process that identifies service failures, effectively resolves customer problems, classifies their root cause, and yields data that can be integrated with other measures of performance to assess and improve the service system.
- An organisation has to track and sketch the demand level for its services at specific time periods. If an organisation maintains a customer database and a record of varying demand levels over a period of time, this can be done with ease and accuracy.
- To match its demand and capacity, there are two options for an organisation. It can either opt to shift the demand to meet the capacity or to increase or decrease the capacity to match the demand fluctuations.
- In order to alter capacity to match demand the firm can employ part time workers, outsource, share facilities, rent equipments, schedule maintenance during downtime, cross train employees, etc.
- The queuing system consists primarily of the waiting line(s) and the available number of servers. Factors to consider with waiting lines include the line length, number of lines, and queue discipline.
- Managing waiting lines is important aspect of service management and it can be done by diverting customers attention while waiting, informing customers about waiting time, encouraging them to visit during off peak period, segmenting customers, training servers to be more user friendly, etc.

## 4.6 Keywords

**Cash Cows:** Low growth or mature industries having relatively high market shares.

**Cash Crunch:** SBUs not doing well vis-à-vis competitors nor is their industry growing.

**Cost Leadership:** Competitive strategy where service firm seeks to be a low cost producer.

**Notes**

**Diversification:** Venturing into a new market with a new product.

**Divest Strategy:** Dispose off a SBU from the portfolio.

**Focus Strategy:** When SBU concentrates entire attention on specific customer segment.

**Problem Child:** SBUs which have doubtful future.

**SBU:** Strategic Business Units

**Service Recovery:** Correcting service failures occurred during entire process.

**4.7 Review Questions**

1. Critically analyse the BCG matrix in context to the services sector.
2. Do you think that BCG matrix was a better way to study market than GE model? Why or why not?
3. Discuss Porter's Model in context of Indian modern retail scenario.
4. "Growth can be achieved only with greater understanding of the service firm's markets." Discuss.
5. Perform a SWOT analysis of any one service firm in hospitality industry and one banking firm.
6. "Service Recovery means a second chance". Comment.
7. In the education sector what are the possible capacity constraints that the service firms can face?
8. "Understanding and sketching a pattern of demand variation is very important in services". Discuss.
9. Suppose you are the marketing manager of a healthcare firm. What would you do to manage excess demand if you have capacity constraints which you cannot change?
10. Suppose you are the marketing manager of a hotel. What would you do to manage excess demand knowing that you cannot control demand?
11. What are the ways to manage the customers waiting to avail the service in a bank and at a doctor's clinic?
12. Do you think that the waiting time and management of waiting lines are linked with customer loyalty? Substantiate your answer.

**Answers: Self Assessment**

- |             |                     |
|-------------|---------------------|
| 1. (c)      | 2. (b)              |
| 3. (d)      | 4. (c)              |
| 5. False    | 6. True             |
| 7. True     | 8. True             |
| 9. Capacity | 10. Facilities      |
| 11. Time    | 12. Capacity/demand |
| 13. True    | 14. True            |
| 15. False   | 16. True            |

## 4.8 Further Readings

Notes



Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Douglas Hoffman and John E G Bateson, *Essentials of Service Marketing: Concepts, Strategies and Cases*, 2nd Edition, India: Thomson Asia, 2002

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press



Online links

[www.valuebasedmanagement.net/methods\\_bcgmatrix.html](http://www.valuebasedmanagement.net/methods_bcgmatrix.html)

[www.quickmba.com/strategy/matrix/ge-mckinsey](http://www.quickmba.com/strategy/matrix/ge-mckinsey)

[www.customer-service.com/t-service\\_recovery120605](http://www.customer-service.com/t-service_recovery120605)

[www.pegasus.cc.ucf.edu/~borrieci](http://www.pegasus.cc.ucf.edu/~borrieci)

[www.ateneonline.it/chase2e/studenti](http://www.ateneonline.it/chase2e/studenti)

## **Unit 5: Market Positioning**

### **CONTENTS**

Objectives

Introduction

5.1 Market Positioning

5.2 Service Blueprinting

5.3 Summary

5.4 Keywords

5.5 Review Questions

5.6 Further Readings

### **Objectives**

After studying this unit, you will be able to:

- State the principles of positioning
- Identify the positioning bases
- Discuss the positioning process
- Describe the concept of service blueprinting

### **Introduction**

The marketers segment the market and choose segment/s which they are going to target. The chosen segment is to be targeted for customer acquisition and retention. Positioning is the perception of a brand or product it brings about in the mind of a target consumer and reflects the essence of that brand or product in terms of its functional and non-functional benefits as judged by the consumer. As markets become more crowded and competitive with similar types of products, consumers rely more on the product's image than on its actual characteristics in making their buying decisions.

The right positioning is probably more important to the ultimate success of a brand than are its actual attributes. Marketers sometimes assign different images to the same product or service in different market segments or at times, reposition the same product without actually making it any different physically. In this unit, you will learn how marketers position their services in the minds of the target consumers.

In this unit, you are also going to learn about service blueprinting. A service blueprint describes a service in enough detail to implement and maintain it carefully. Blueprinting can be described as mapping out of a service journey identifying the processes that constitute the service, isolating possible fail points and establishing the time frame for the journey. In simple words, it depicts the service process.

### **5.1 Market Positioning**

Positioning is a battle for the consumer's mindshare. After segmentation and targeting, it is the third and final step of the much talked about STP process. For positioning to be successful, customers have to be persuaded that the service offer is unique in features, value and benefits.

The offer, thus, has to be positioned in their minds to enable them to recognise the offer as distinct from the crowd and to be persuaded that the offer is the best offer for them.

Notes

**Note:** Always remember your competitors are trying to figure out how to get better and get a leg up. You must continually assess whether a particular positioning strategy is still valid and if not, adjust it accordingly.

### 5.1.1 Four Principles of Positioning

The four principles of positioning are:

1. A service firm must position itself in the target segment's mind.
2. The position should be singular, with one simple, consistent message.
3. The position must set the service firm and the service product apart.
4. A service firm cannot be all things to all people; should focus on certain segments.

### 5.1.2 Positioning and Differentiation of the Service

- **Positioning by Attributes:** A service provider positions the service based on some unique feature or attribute.



*Example:* Reliance Communications positions itself as the No.1 network in India

Allahabad Bank positions itself as the oldest bank in India

- **Positioning by Benefits:** A service can be also being positioned based on the benefits sought by the consumers. Consumers usually tend to analyse the benefits of the service before using it so this type of positioning may work well.



*Example:* Insurance companies mostly position on benefits like Max New York Life Insurance positions itself by saying 'karo jyada ka irada'.

- **Positioning by User:** The services are also positioned for specific types of users groups.



*Example:* MTV positions itself as a channel for youngsters

- **Positioning by use:** Service is positioned as the best option for a certain use or application.



*Example:* SBI positions itself as the best bank for seeking educational loan Citi Financial positions itself as bank which processes loans quickly and without hassles.

- **Positioning by Competition:** Services are positioned as against the competitors.



*Example:* Avis positioned itself against Hertz by saying that 'We work harder'. Hertz replied by saying that 'We are hertz, they are not'.


- **Positioning by Service Category:** The service provider positions itself as the category leader and becomes inseparable with service.




*Example:* Xerox is the leader in photocopiers, so much that mostly people refer to photocopy as Xerox.


- **Positioning by Price:** A service can also be positioned based on particular prices.


Notes

 *Note* Always remember your competitors are trying to figure out how to get better and get a leg up. You must continually assess whether a particular positioning strategy is still valid and if not, adjust it accordingly.

 *Example:* Wal-Mart positioned itself by saying ‘always low prices’

- **positioning by Quality:** A service can also be positioned on certain quality standards.

 *Example:* The Oberoi-Hilton hotels positioned themselves as high quality high price hotels.

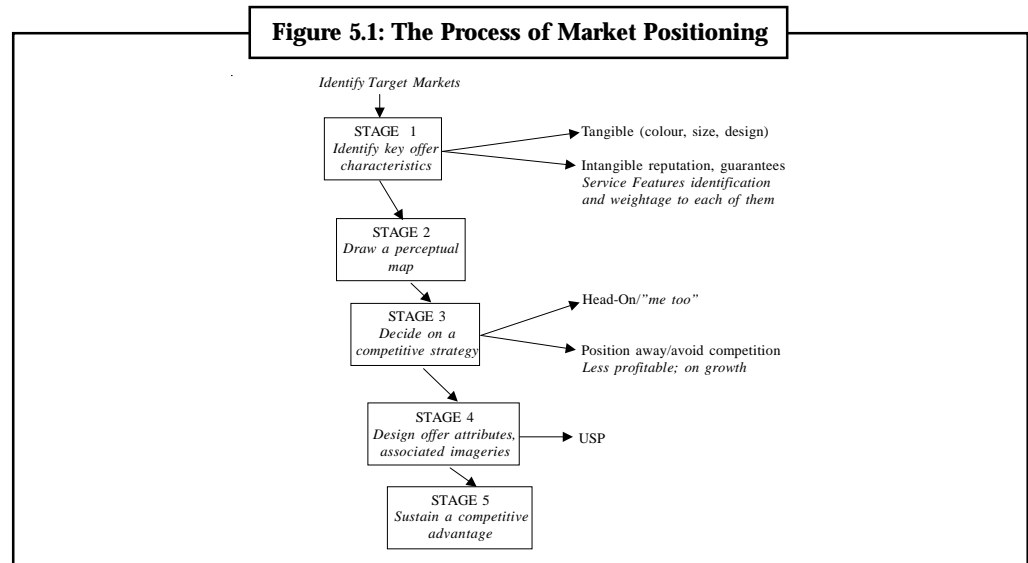
 *Task* Collect ads of services that have positioned themselves well on the basis of price, benefits, competition and quality.

**Self Assessment**

Fill in the blanks:

1. Positioning of a product or service means projecting an image in such a way that the consumers perceive it distinctively to that of .....
2. Intensive distribution where the majority of resellers stock the .....
3. Selective distribution is the normal pattern where ‘suitable’ ..... stock the product.

**5.1.3 Positioning Process**



**Stage 1: Identify Key Product Characteristics**

The service marketer should make efforts to find out which of the offer’s features and characteristics do consumers desire, and value most, when they make a decision to buy. Some

kind of weighting should be put on these features. The features could be both tangible (colour, size, design) and intangible (guarantees, reputation, experience, quality, etc.).

Notes



*Example:* Consumers might have different weights for the features of a tour package company's offer. A vegetarian might be keener on the fare available throughout the tour, while others might stress on the price or variety of destinations and tourist attractions. SOTC/Kuoni, the outbound tour package company has understood the desires of the Indian tourists – food as found at home – so well that they have been able to position themselves uniquely with the “Ghar ka khaana” promise.

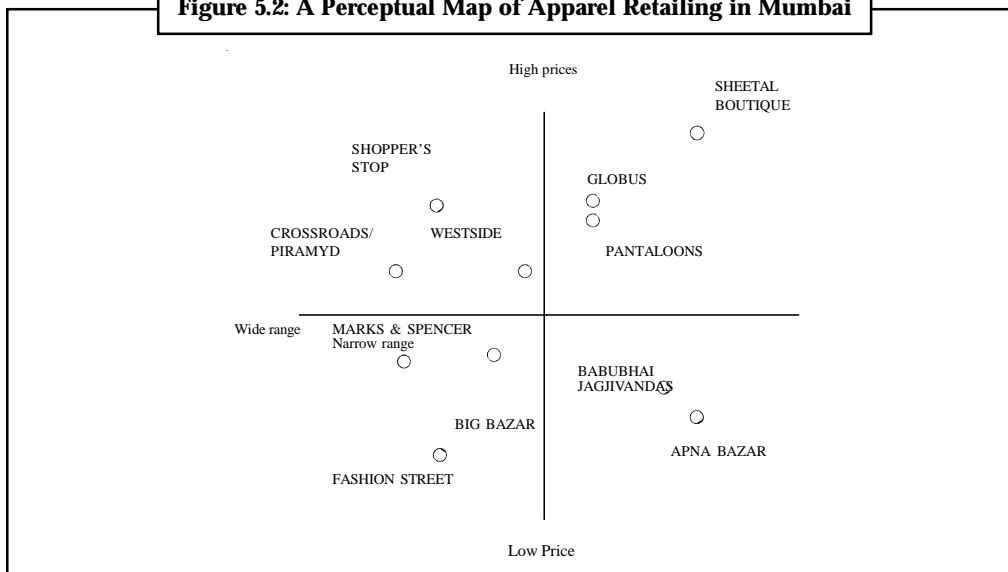
### Stage 2: Draw a Positioning Map

With the weights of different features, a positioning or perceptual map is drawn. This is an extremely useful tool to visually depict what the consumers think of available brands with their features. A positioning map consists of a grid on two axes, with product attributes on each of them. Thus, brands are spread over the grid, giving an indication of what the market perceives of the brands vis-à-vis others.



*Caution* Clusters of brands in one area or brand standing alone in another area will give the service marketer an indication of the intensity of competition as well as the distinctiveness or lack of it of the brands. The marketer also gets glimpses of gaps in the market, for exploitation.

**Figure 5.2: A Perceptual Map of Apparel Retailing in Mumbai**



### Stage 3: Decide on a Competitive Strategy

After the perceptual map has been drawn, the decision to be taken is either of the two:

- To compete head-on
- Get away from the competition

Different players take different positions in the grid. Some are competing head-on while others prefer to be alone. A new entrant decides on the segment to compete in and if there is a cluster,

**Notes**

as with Shopper's Stop, Crossroads/Pyramid, Globus and West Side, then they have to compete head-on. The other choice could be the lower quadrants where there is an absence of competition.



*Caution* A service blueprint describes a service in enough detail to implement and maintain it carefully.

**Getting Away from the Competition**

This seemingly attractive strategy might land a service marketer in a trap. There may never be any profitable returns or growth from such positioning. Stocking a wide range of goods at low prices might lead to financial failure. If the competition-free slot has high service with low price, then it is destined to be a financial failure with no profits in sight; and if the slot has high price with low service, bad PR and bad word-of-mouth publicity will doom the service and would result in competitive failure. There will not be any revenue coming in at all.

**Head-on Competition**

Here the market is crowded, but there is an assurance that it is a tried and tested sector. If the intensity of rivalry increases, then margins are bound to get squeezed. If the market is not growing, it might only start a price-war.

**Stage 4: Design Product Attributes and Associated Imagery**

To help the targeted customer identify the services and their benefits, the marketer designs service product features and associated images are designed. They will include brand name ('Unfixed Deposits' of Citibank, 'Magnum' of SBI), slogan ('state-of-the-heart banking' of Global Trust Bank), advertising themes (delightful and emotional bonding of boy and dog for Hutch), price levels (different prices for Apollo, Hinduja and municipal hospitals), and distribution outlets (Reliance Web World, BPL Gallery, ICICI Centres, etc). Thus with marketing mixes, the service marketer is able to position his offer in the minds of the consumer.



*Did u know?* If the market is not growing, it might only start a price-war.

**Stage 5: Sustain a Competitive Advantage**

A service marketer gets a decisive competitive advantage if he is able to set his offer apart from those of the rest of the competition – in the eyes of the target customer. Success will breed imitators, and the service marketer will then have to spend time and resources toward them off. But this competitive advantage has to be sustained, and can only be done by keeping in touch with the customer and knowing his needs.

**Self Assessment**

Fill in the blanks:

4. Positioning is a battle for the consumer's .....
5. Positioning should be singular and ..... with the values, beliefs and service characteristics.

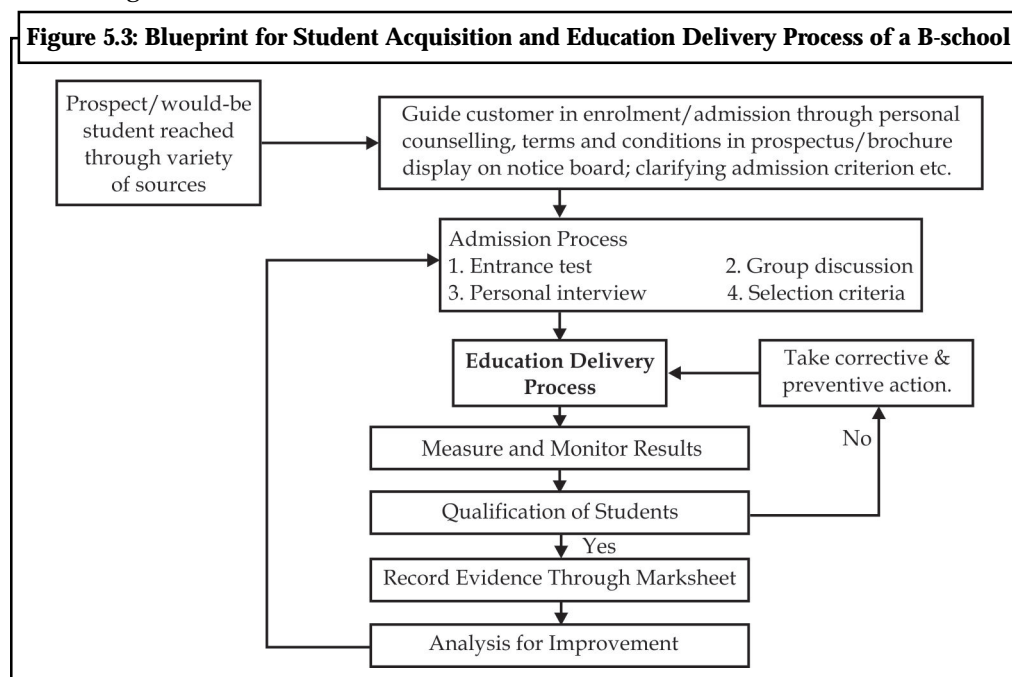


6. Big Bazaar has positioned itself on the basis of .....
7. If a service brand positions itself as the “best service in the world”, it has positioned itself on the basis of .....
8. Virgin Mobile has positioned itself on the basis of .....
9. Goodwill is ..... feature attached with the service.
10. A positioning map is also referred to as ..... map.
11. A positioning map consists of a grid on two axes, with ..... on each of them.
12. If the market is not growing, it might result in a .....
13. If the brand is able to set its offer apart from those of the rest of the competition, it gets a decisive .....

Notes

## 5.2 Service Blueprinting

The service encounter is difficult to describe with accuracy and therefore there is a lot of subjectivity in its analysis. This inconsistency (variability) prevents quality measurement. This has given rise to many methodologies in service encounter analysis and measurements which seek to ‘map’ the service process. With such a ‘map’ and ‘scripts’, it is possible to be systematic in the encounter analysis. This process is called ‘blueprinting’. Blueprinting has given rise to other methodologies like ‘servuction’.



### 5.2.1 Service Blueprint Components

- **Customer Action**  
Line of Interaction
- **“Onstage” Contact Employee Actions**  
Line of Visibility

Notes

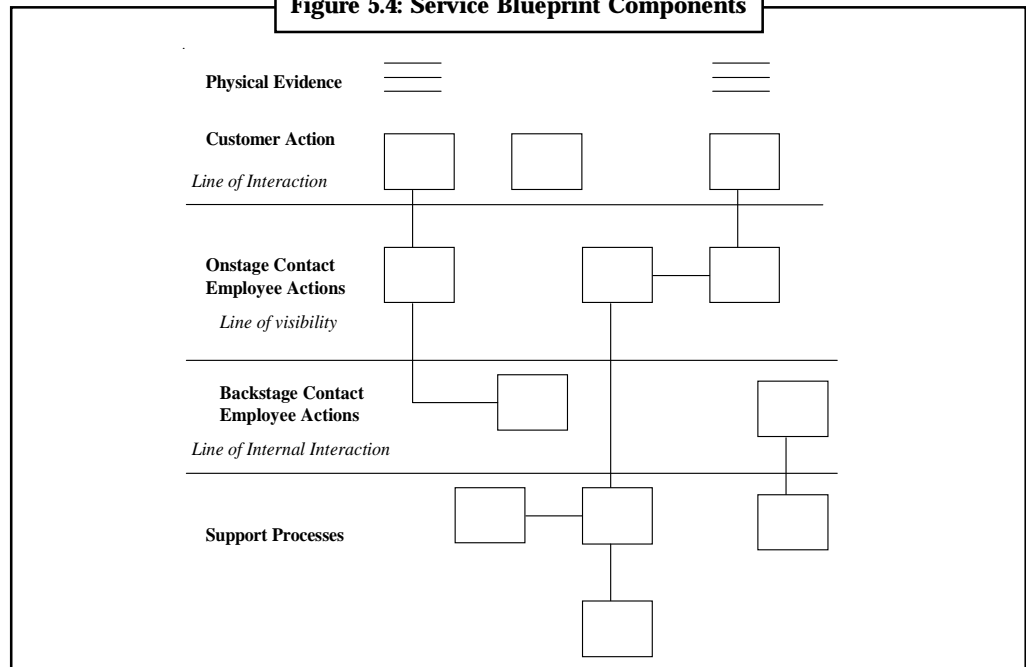
- **“Backstage” Contact Actions**  
Line of Internal Actions
- **Invisible Support Actions**

The service blueprint components consist of customer interaction, on-stage contact employee actions, backstage contact employee actions, invisible support actions and processes. Customer interaction is in the ‘line of interaction’ in the blueprint.



*Example:* In a travel agency, customer interaction is on the phone for tickets and reservations, over the counter for foreign exchange transactions or across a desk of the package tour itinerary designer. The line of visibility is for the onstage contact employee actions. Thus a customer for foreign exchange and tour package will be in the line of visibility. In the line of internal interaction is the backstage employee interaction. Here the tour guide or car pool operator will interact with the tour group marketer or itinerary designer. The invisible support will be the systems personnel who will ensure online connections to the other branches, human resource personnel undertaking training and the branch administrator supervising the branch.

**Figure 5.4: Service Blueprint Components**



*Task* Prepare a blueprint of the service delivery process of a restaurant.



*Caselet*

**Case: Blueprint for e-Seva**

**I**n yet another significant stride towards developing an integrated information technology and communication backbone for e-Governance, the Andhra Pradesh Government has drawn up a blueprint and has embarked on a mission to create a State-wide grid that meets

*Contd...*

the requirements of the Government in the convergence era handling voice, data and video communication.

The State Government had enlisted the services of consultants PricewaterhouseCoopers to assist it to develop an integrated IT architecture as also draw up a security infrastructure for various e-governance applications cutting across departments in the State. Following this initiative, the State had identified several projects for development and these are gradually being integrated.

Since each of the projects has been developed independently, the Government has drawn up a blueprint that is aimed at facilitating an integrated development of the entire IT&C backbone and infrastructure in the State.

The State Government had initiated and conducted a research on various aspects of e-governance over the last few years through implementation of a few pilot projects and through external consultancies. The concepts and models developed in the process have been mapped. Following this, a big picture has been charted out. This picture incorporates core e-governance applications, data centre, group applications; delivery channels while covering various State verticals as also integrated security architecture.

To support the Government initiatives and to provide an enabling environment, the Government recently announced an integrated ICT Policy for the year 2002-2005, the first by a State in the country to initiate such a policy framework, which builds on the earlier IT policy.

According to the Principal Secretary, IT&C, J. Satyanarayana, this new network and blueprint drawn up by the State is aimed at providing an integrated backbone for all the State Government agencies. The State Government is in the process of implementing various e-governance projects and plans to reach out host of citizen centric services even up to the village level.

Though initially these services will be reached out up to all the 1,100 *mandals* (blocks) across the State, it is proposed to deploy up to village in a phased manner. With such ambitious plans, the Government is looking at this telecom backbone to serve the needs of all the diverse departments in the State.

The proposed broadband connectivity will link up the offices right from the seat of State administration — the State Secretariat down to the district level initially and to the village level gradually. This is expected to complement the existing Andhra Pradesh State Wide Area Network (APSWAN), which is used by the Chief Minister and the State Cabinet colleagues to host video conferencing facility with district collectorates.

This new network and the integrated grid is targeted at translating the State vision of providing swift and wide access of Government services across the State spreading to even the remotest parts. While this new network will provide the infrastructure, the integrated citizen services centers — e-Seva is now programmed to be deployed in other parts of the State.

Several of the e-governance applications, such as the Online Transactions Processing System (OLTP), e-procurement, which is being handled by Commerce One, AP Portal (handled by TCS) and social benefits management system, have been identified as core applications by the State Government. Since these projects involve huge IT spend, the Government is roping in strategic partners under the PPP (public private partnership) model, Satyanarayana maintained.

The ICT Department has estimated that over the next three four years, various State Government's IT&C applications will involve a total outlay of about ₹ 2,000 crore, offering

*Contd...*

Notes

huge business opportunity for domestic software services companies to partner and deploy solutions for various departments, Satyanarayana added.

“The big picture has sharpened the understanding of the State Government of the key components of e-government, their inter-se priority, interdependence and linkages. The big picture is not static but is being constantly reviewed and fine-tuned. It is the earnest wish of the State to convert the big picture into a ground reality substantially by the middle of 2003,” Satyanarayana, said after the launch of the ICT Policy 2002-2005.

Since these projects involve huge expenditure, the Government plans to take up core projects such as Integrated Financial Information Systems, the transformation of the Secretariat into a paperless office and transmission of information and data from remote parts of the State on a real time basis, as flagship applications. To ensure that these projects are grounded without delays, the domestic companies have been extended certain sops when associated with the State Government in various e-governance projects.

*Source:* www.hindubusinessline.com

### 5.2.2 Steps in Designing a Blueprint

Following are the steps in designing a blueprint:

1. **Identify the Process to be blueprinted:** This implies again that it would be impossible to blueprint the complete processes of the service provider in one format. The individual processes are to be identified for blueprinting. The summation of such processes would give the whole picture to the manager. Each process would by itself be an issue, and particular problem identification and appropriate solution formulation would be easier.
2. **Map Process from the Customer's Point of View:** Through this method, the customer's comfort zones can be identified. Processes can be modified if it is found that customers are not very comfortable with certain sequences. Consumers possess purchasing scripts that guide their thinking and behaviour during service encounters. The blueprint development process identifies steps where the system can go awry. Process involves specifying the timeframe of service execution.
3. **Draw Line of Interaction:** The line of visibility and the line of interaction have to be drawn clearly. The areas of interaction affect service experience the most.
4. **Draw the Line of Visibility:** These are processes in zones that are visible to the customers and in which the customer is most likely to participate. There are also the invisible zones which consist of processes and interactions that are necessary for servicing the customer but are hidden from his view. In a bank, this would include checking the creditworthiness of clients, processing of documents, dispatch section operations, etc.
5. Map process from customer contact person's view, distinguishing visible activities from those that are invisible.
6. Draw line of internal interaction.
7. Link customer and contact person activities to needed support functions.

### 5.2.3 Service Redesign and Customer's Role in the same

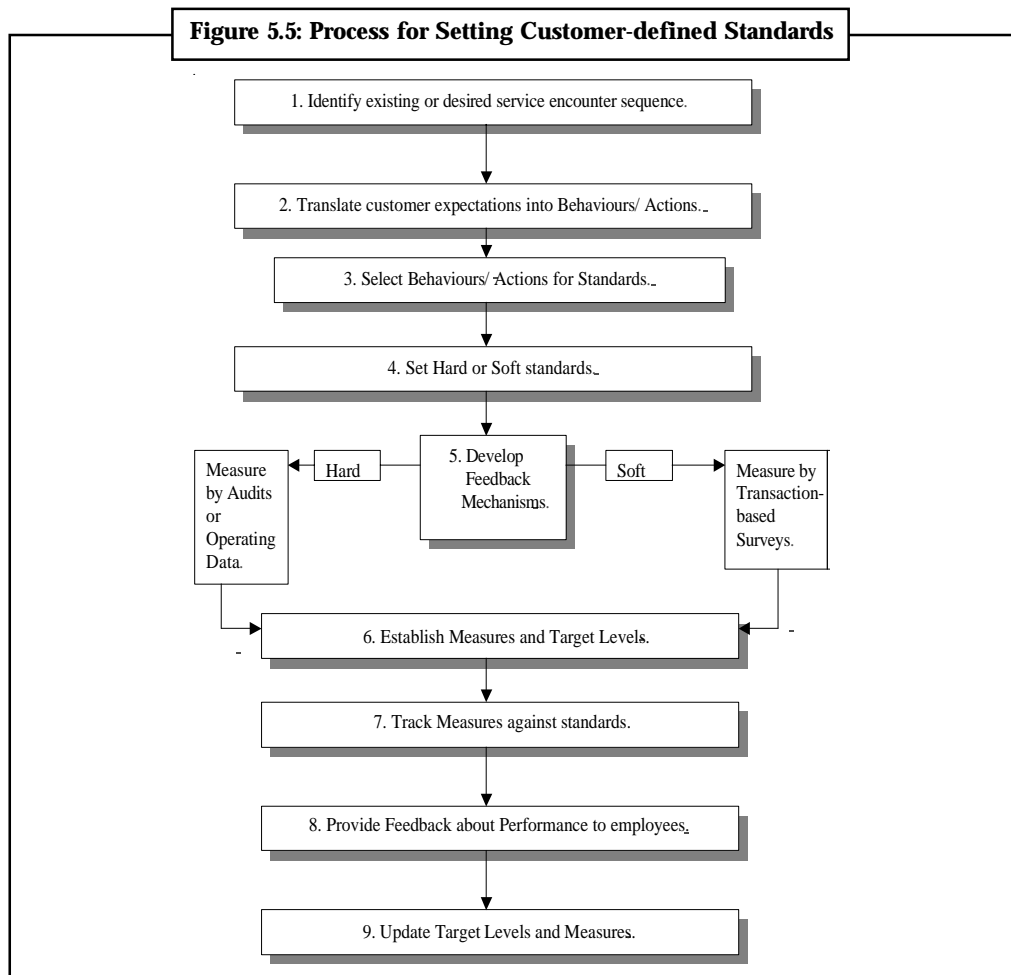
There are major possibilities of fail points in the service delivery system. Although service failures do follow Murphy's Law (whatever can go wrong will go wrong) and cannot be avoided in spite of the best of planning, it can certainly be minimised by blueprinting. There are three

characteristics to these fail points which the service marketer would do well to observe and analyse for its implications. They are:

Notes

1. The potential for operations malfunction is high.
2. Results of the malfunction are very visible to consumers.
3. System malfunction is regarded by consumers as particularly significant.

In order to avoid these, the service firm should take into consideration the customer defined service standards. Based on these standards, service should be redesigned.



Examples of Hard Service Standards are:

- Number of Complaints Received
- Number of Warranty Claims
- Number or Dollar Value of Sales
- Return on Assets
- Number of Repeat Customers
- Number of Infections per Surgery
- Number of Law Suits Filed

**Notes**

- Competitive Data
- Accuracy of Order
- Back orders
- Parts Availability
- Exceptions to Procedures
- Violations of Regulatory Codes

Examples of Soft Service Standards are:

- Safety
- Convenience
- Cleanliness
- Availability
- Consistency
- Hospitality
- Credibility
- Waiting Time, Transaction Time
- Accuracy of Transaction
- Friendly Personnel
- Knowledgeable Personnel
- Helpful Personnel
- Costs
- Value Received



*Case Study*

**Case: The Body Shop and Marketing**

**T**he Body Shop recorded rapid growth during the 1970s and 1980s. However, its founder, Anita Roddick had publicly dismissed the role of marketing. It is well-known that she publicly ridiculed marketing for putting the interests of shareholders before the needs of society. She also held in similar low esteem the financial community that she referred to as “merchant wankers.” While things were going very favorably, nobody seemed to mind her sceptical approach. After all, it was possible that she had actually found a new way of doing business, and the results so far stood to prove it. But how even such a famous and admired person as Anita Roddick could manage indefinitely without consulting the fundamental principles of marketing, wondered marketing experts and others. By the end of the 1990s, The Body Shop was experiencing bad times and the sceptics among the marketing and financial field were quick to point out the folly of its founder’s apparently idiosyncratic ways.

From a high in 1992, The Body Shop shares dropped to a low witnessed at the start of 2003, despite the market index rising over that period. Profit remained similarly depressed,

*Contd...*

with performance in almost all European, North American, and Far Eastern markets stagnant.

Yes, everybody recognized that Anita Roddick has been the dynamo behind The Body Shop's success. From a small single outlet, she inspired and managed the growth of the chain to some 1500 familiar green-fronted establishments in 46 countries around the world. Yet, until the late 1990s, she continued to boast that The Body Shop had never used, or needed, marketing. Much of the company's success has been tied to its promotional approach by campaigning for the pursuit of social and environmental issues. But while Roddick campaigned for everything from physical torture of wives and Siberian tigers to the poverty-stricken mining communities of Southern Appalachia, the company was facing major problems in all its key markets.

Part of the problem of The Body Shop was its failure to fully comprehend the dynamics of its market place. Positioning on the basis of good causes may have been enough to launch the company into the public mind in the 1970s, but what it now needed was a sustainable long-term positioning. Other companies soon launched similar initiatives. For example, the Boots Pure Drug Company matched one of The Body Shop's earliest claims that it did not test its products on animals. Competitors had copied even the very feel of The Body Shop store that included its décor, staff, and product displays. How could the company stay ahead in terms of maintaining its distinctive positioning when many others had similar differentiation? Its causes seemed to become increasingly remote from the real concerns of shoppers. While most shoppers in UK may have been swayed by a company's unique claim to protect animals, it is not clear how many would be moved by its support for Appalachian miners? If there was a Boots or Superdrug store next door, why should a buyer shell out a premium price to buy from The Body Shop? The Body Shop may have pioneered a very clever business launching formula over twenty-five years ago, but the concept had been successfully copied by others. And these other companies had made enormous strides in terms of their social and environmental concerns and awareness.

Part of the company's problem has been blamed on the inability of Roddick to delegate. She is reported to have spent almost half of her time globetrotting in propagating support of her good causes, but did have a problem in delegating marketing strategy and implementation. Numerous capable managers who were brought in to try to implement professional management practices apparently gave up in bewilderment at the lack of discretion that they were given, and then left dismayed.

The Body Shop's experience in America, typified Roddick's pioneering style, which frequently ignored sound marketing analysis. She sought a new way of doing business in America, but in doing so she dismissed the experience of older and more sophisticated retailers – such as Marks & Spencer and Sock Shop, which came unscratched in what is a very difficult market. The Body Shop decided to enter the US markets in 1988 not through a safe option such as a joint venture or a franchising agreement, but instead by setting up its own operation from scratch, according to Roddick's principles of changing the business rulebook and cutting out the greedy American business community. But this was an exceedingly risky move. Her store format was based on the British town centre model. She did not bother to appreciate the fact that Americans spend most of their money in out-of-town malls. In 1996, the US operation lost 3.4 million pounds.

Roddick's critics claim that she has a naïve view of herself, her company, and business in general. She has consistently argued her philosophy that profits and principles don't mix, despite the fact that many of her financially successful competitors have been involved in major social initiatives.

## Notes

*Contd...*

**Notes**

The rift between Roddick's and others' view of the world was revealed in the results of an innovative independent social audit that The Body Shop commissioned in 1966. The company was prompted to commission the study after the report following media criticism that its social and environmental credentials might not actually be as good as the company claimed. The results highlighted eye-opening shortcomings in virtually every one of the company's stakeholder relationships. The company scored well in certain areas such as promoting human and civil rights, pollution control, product information, wages, and benefits, women's opportunities, and energy conservation; but it scored really badly on issues of corporate governance, relationships with shareholders, responsiveness to complaints of customer and franchises, accuracy of promotional claims, communication, and reaction to criticism.

Critics claim that had Roddick not dismissed and ridiculed the need for marketing for so long, The Body Shop could have certainly avoided future problems that it faced. But by 2000, it was paying the price for not having devoted sufficient resources to new product development, to innovation, to refreshing its product ranges, and to moving the business forward. It seems that heroes can change the rulebook when the tide is flowing with them, but adopting the disciplines of marketing allows companies to anticipate and react when the tide begins to turn against them.

**N.B:** The Body Shop was sold to L'Oreal, the world's largest cosmetics manufacturer, in March 2006, for £ 656 million. Dame Anita Roddick gained personally to the tune of £130 million. Since British and French companies have very divergent views on strategy and day-to-day management, it remains to be seen how successful the union will ultimately turn out to be. For The Body Shop, it's yet another chapter in its struggle to remain relevant in a changing world.

**Questions:**

1. Analyse the significant issues in the case. Was Anita right in ridiculing the marketing?
2. How has Anita Roddick positioned The Body Shop and maintained its identity with social and environmental causes as a unique positioning approach?

**Source:** *Marketing Management-Text and Cases*, SHH Kazmi, Excel Books.

**Self Assessment**

State True or False:

14. The inconsistency in service encounters prevents quality measurement.
15. A service blueprint maps the entire brand's marketing process.
16. Actions taken by an airhostess in a flight are a part of line of visibility.
17. The support staffs usually are a part of the line of interaction.
18. The blueprint should be designed from the service provider's point of view.

**5.3 Summary**

- Service positioning is done in five steps: identify key offer characteristics, draw a positioning map, decide on competitive strategy, design offer attributes, associated imageries and sustain a competitive advantage.
- Positioning map is an extremely useful tool to visually depict what the consumers think of available brands with their features. It consists of a grid on two axes, with product attributes on each of them.



- The difficulty in assessing the service process has given rise to many methodologies in service encounter analysis and measurements which seek to 'map' the service process. It is known as service blueprinting.
- Service flowcharts allow managers to better understand service processes. Designing the process becomes the key to product design. In the design stage, it is ensured that the visible part of operations is supported by invisible processes.
- Customer actions, onstage contact employee actions, backstage contact employee actions and other support functions form the components of a service blueprint.
- There are four major steps in designing a service blueprint: identify process to be blueprinting, map the process from customer's point of view, draw line of interaction and draw line of visibility.

## 5.4 Keywords

**Blueprinting:** maps the process of service delivery

**Line of Interaction:** customer interactions with people in service

**Line of Visibility:** line of onstage contact employee actions

**Positioning:** battle for the consumer's mindshare

**Positioning Map:** depicts what the consumers think of available brands with their features

**Price War:** Market situation in which (usually two) powerful competitors try to usurp each other's market share by progressively reducing prices until one of them retreats, at least temporarily.

## 5.5 Review Questions

1. Positioning is battle for the consumer's mindshare. Discuss the relevance of positioning in modern marketplace.
2. What are the options available for a firm to position a service? If you want to position healthcare services, how would you do it?
3. Draw a positioning map for the airline industry. If you are coming up with an airline service which would cater to middle-middle income and upper-middle income groups, where would you place it?
4. Success will breed imitators. What can a firm do toward them off? Give examples to support your answer.
5. Prepare a rough blueprint for a banking firm.
6. Explain the current positioning used by Airtel in India and contrast it with the positioning of Vodafone.
7. What do you think, positioning on the basis of which attribute would yield maximum results? Explain your answer.
8. Can a service be positioned on two or more attributes? Give reasons to explain your answer.
9. Can a service brand do without a positioning statement or can a firm skip the positioning process? Explain your answer.
10. Briefly explain the service blueprint designing process.

Notes

**Answers: Self Assessment**

- |                           |                |
|---------------------------|----------------|
| 1. Competitive offers     | 2. 'Product'   |
| 3. Resellers              | 4. Mindshare   |
| 5. Consistent             | 6. Price       |
| 7. Service category       | 8. User        |
| 9. An intangible          | 10. Perceptual |
| 11. Product attributes    | 12. Price war  |
| 13. Competitive advantage | 14. True       |
| 15. False                 | 16. True       |
| 17. False                 | 18. False      |

**5.6 Further Readings**



*Books*

Al Ries and Jack Trout, *Positioning: The Battle for your Mind*, New York: McGraw Hill, 1981

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Donald W Cowell, *The Marketing of Services*, London: Heinemann, 1984

J M Rathmell, *Marketing in the Service Sector*, Cambridge Mass: Winthrop, 1974



*Online links*

<http://servicedesign.wikispaces.com/Service+Blueprint>

<http://www.visitell.com/pages/article-service-positioning.php>

<http://www.adcracker.com/position/Positioning.htm>

[http://www.1000ventures.com/business\\_guide/crosscuttings/positioning\\_main.html](http://www.1000ventures.com/business_guide/crosscuttings/positioning_main.html)

## Unit 6: Service Planning

Notes

### CONTENTS

Objectives

Introduction

6.1 Service Planning

6.2 Summary

6.3 Keywords

6.4 Review Questions

6.5 Further Readings

### Objectives

After studying this unit, you will be able to:

- Discuss about the service planning process
- Elaborate the service planning with the help of pro forma and checklist

### Introduction

A service plan is required to be completed and approved prior to embarking on a capital works Project. It is critical to resolve policy issues prior to commencing the capital development process for the capital project.

The process of “Service Planning” defines the core services to be delivered to the community, in conjunction with the necessary ancillary or support services, also required within a prescribed timeframe. The following describes a comprehensive approach to the data collection and analysis used to support capital investment proposals. While the research and time required to complete each step will vary substantially with the project size, each step is required to be undertaken for all projects. A range of services will need to be considered when planning a specialised facility complex such as a training centre, forensic facility or a new acute-care hospital.

The service planning process should be undertaken under the direction of the Health Service/ Agency and Departmental personnel (Regional and Head Office Program Division). The services plan should clearly identify existing service needs as well as new, reconfigured or replacement services. The resultant services plan will need to be signed off prior to the commencement of the capital planning project proposals.

The service plan must address the following objectives:

1. Identification of assessed community or State needs for the designated services, service gaps and/or surpluses, for a period of five to ten years into the future.
2. Improved quality of designated services for clients.
3. A reorientation of services from previous services focus in accordance with the first objective.
4. The provision of an appropriate level and mix of services to meet assessed community needs in a cost effective and coordinated manner.

**Notes**

5. Accessibility and the provision of services to meet the catchment needs.
6. The delivery of the services is from a facility safe and fit for purpose.

The service plan needs to express the above objectives in context of the local situation in consultation with service providers (both public and private), community members and departmental representatives. It is vital that in setting objectives for the relevant organisations, they can be evaluated and measured in terms of achieving projected changes in services to clients, service structure and profile.

**Policy/Background**

Relevant government policy regarding the service delivery must be stated and referenced to:

- Ministerial statements
- Acts and Legislations
- Strategic directions
- Program policy statements
- Regional and Corporate Plans.

Where there are conflicting views or interpretation of policy, the matter is to be clarified and clear documentation provided to support the project decisions.

**6.1 Service Planning**

The process of service planning can be explained as follows:

**6.1.1 Developing the Service Plan**

**Catchment**

A “catchment” is a defined geographic area. The catchment boundaries are to be defined with reference to administrative boundaries, service delivery patterns and transport networks. A brief description, of the physical geography, history of the area and local economy, may assist in providing an understanding of the service demands. A map should be prepared showing the area of the catchments, major towns, suburbs, transport links and any other relevant information.

Catchments will vary in size depending on whether the services provided are Statewide, to the local communities or to specific target groups.



*Did u know?* The catchment should be agreed prior to proceeding with the data analysis stage.

**Demographics**

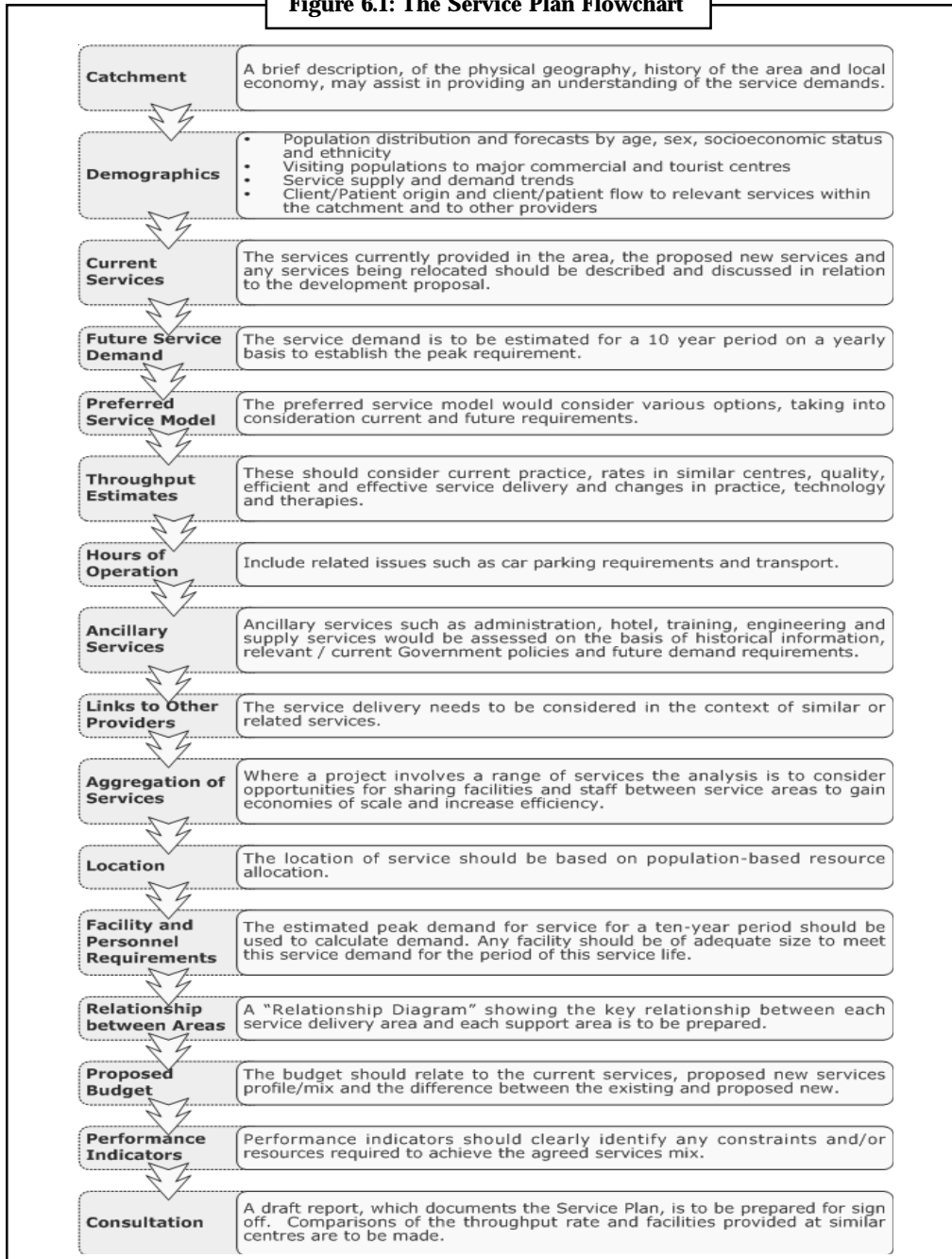
Demographic information for the catchment area and population figures relevant to the project should be generated and may include:

- Population distribution by age, sex
- Socioeconomic status and ethnicity
- Visiting populations to major commercial and tourist centers
- Significant visiting populations to major commercial and tourist centers

- Historical growth trends in service supply and demand
- Population forecasts by age, sex, socio-economic status and ethnicity (*Refer: Victoria in Future: Population projection 1996-2021 and Victorian population trends & prospects: 2001, both by the Department of Infrastructure*), population status indicators that are available and appropriate
- Client/Patient origin and client/patient flow to relevant services within the catchment and to other providers
- Other relevant information.

Notes

**Figure 6.1: The Service Plan Flowchart**



Notes

**Self Assessment**

Fill in the blanks:

1. A ..... is required to be completed and approved prior to embarking on a Capital Works Project.
2. Where there are ..... views or interpretation of policy, the matter is to be clarified and clear documentation provided to support the project decisions.
3. .... will vary in size depending on whether the services provided are Statewide, to the local communities or to specific target groups.
4. A map should be prepared showing the area of the catchments, major towns, suburbs, transport links and any other relevant .....

**Current Services**

The services currently provided in the area, the proposed new services and any services being relocated should be described and discussed in relation to the development proposal.

The supply and demand for services should also be considered, including future predictions of service requirements.

An analysis of the demand for services should include:

- Frequency of need for services
- Length of service provision
- Occupancy rates by specialty where appropriate
- Average length of stay or consultation time
- Factors affecting the average length of stay and consultation time
- Alternative service providers.

Variations from the norm should be discussed. Accepted Departmental benchmarks should be considered.



*Note* Statistics on service demand and utilization are to be analysed and compared with rates for similar examples, both statewide and nationally.

**Future Service Demand**

The forecast service demand is to be based on factors including:

- Current service demand level
- Potential to collocate and share services
- Forecast changes in demographics and service demands
- Catchment boundaries
- Seasonal demand
- Review service standards

- Anticipated changes in services practices
- Potential for development of new services
- Advancement in technologies such as developments of medical and hospital services e.g. telemedicine
- Anticipated changes in service demand patterns such as attraction of demand currently using other services e.g. utilization of community or outreach type services rather than institution-based services
- Availability of complementary services and resources to support identified new needs
- Changes in legislation and community expectations
- Consideration of methods of containing demand or channeling demand to primary care services.

Future requirements and distribution by specialty are to be estimated by:

- Service needs and client access
- Requirements for emergency facilities
- Optimal consultation, occupancy and usage rates
- Optimal functional unit size
- Acceptable target set by policy
- Availability of complementary services and resources to support identified new need
- Methods of service delivery including trends in Australia and overseas.

The service demand is to be estimated for a 10-year period on a yearly basis to establish the peak requirement. Such figures generally provide the basis for service planning. Other considerations to be considered may include:

- Non-asset options. That is, consider options to meet demand with existing Agency and other private sector facilities by redesigning their usage.
- Factors affecting the average length of stay.
- Occupancy rates by specialty as appropriate.
- Average length of stay or consultation time.

### **Preferred Service Model**

The preferred service model would consider various options, taking into consideration current and future requirements. Future changes should be considered in terms of changes in legislation, technology and demand.

### **Throughput Estimates**

Throughput estimates or suitable benchmarks are required. These should consider current practice, rates in similar centers, quality, efficient and effective service delivery and changes in practice, technology and therapies.

### **Hours of Operation**

The hours of service operation required must be established as well as related issues, e.g., car parking requirements and transport.

**Notes**

**Ancillary Services**

Ancillary services such as administration, hotel, training, engineering and supply services would be assessed on the basis of historical information, relevant / current Government policies and future demand requirements.

**Links to Other Providers**

The service delivery needs to be considered in the context of similar or related services.

The Service Plan should assess linkages to services within a geographic boundary and to services of a complementary nature to ensure coordination.

Where possible, the Service Plan would examine the opportunities to rationalize these patterns.

**Aggregation of Services**

Where a project involves a range of services the analysis is to consider opportunities for sharing facilities and staff between service areas to gain economies of scale and increase efficiency.

**Location**

The optimum location for a facility is to be established with reference to access for clients and an economical unit size. The location of service should be based on population-based resource allocation.

**Facility and Personnel Requirements**

The options available to provide the required facilities and personnel are to be determined by using data such as that listed above in accordance with accepted best practice. The estimated peak demand for service for a ten-year period should be used to calculate demand. Any facility should be of adequate size to meet this service demand for the period of this service life.

**Self Assessment**

Fill in the blanks:

5. The ..... of service should be based on population-based resource allocation.
6. Any facility should be of adequate size to meet this ..... demand for the period of this service life.
7. The ..... should assess linkages to services within a geographic boundary and to services of a complementary nature to ensure coordination.
8. The estimated peak demand for service for a ..... period should be used to calculate demand.

**Relationship Between Areas**

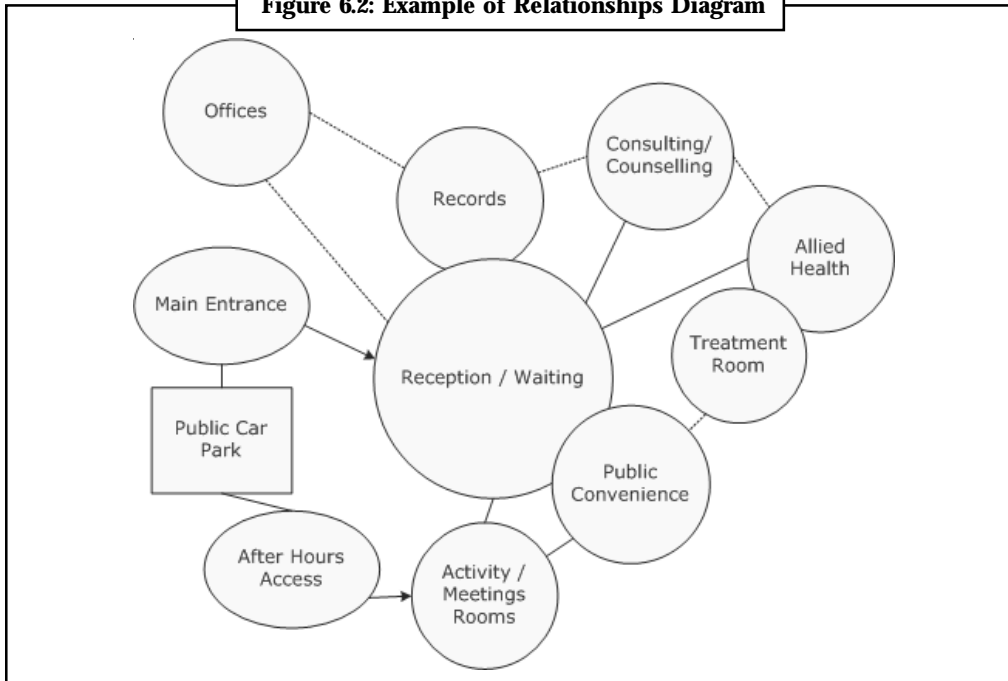
A “Relationship Diagram” showing the key relationship between each service delivery area and each support area is to be prepared.



*Note* Any facility should be of adequate size to meet this service demand for the period of this service life.



**Figure 6.2: Example of Relationships Diagram**



The important functional relationships need to be determined. This can be done in a variety of ways and refer to the Example of Functional Relationship Priorities illustrating a simple manner of presenting this information.



**Caution** It is essential that consideration be given to the sharing of common and support facilities where practical, as well as incorporating flexibility of use into the designed spaces.

**Figure 6.3: Example of Functional Relationship Priorities**

Activity	Primary Functions							
	CR	TR	WA	Off	AR	Rp	PC	Rc
Consulting Rooms	-	H	H	L	L	M	M	M
Treatment Rooms	H	-	L	L	L	M	H	L
Waiting Area	H	L	-	L	M	M	H	L
Offices	L	L	L	-	L	L	L	M
Activity Rooms	L	L	M	L	-	M	H	L
Reception	H	M	M	L	M	-	L	H
Public Convenience	M	H	H	L	H	L	-	L
Records	M	L	L	M	L	H	L	-

**Proposed Budget**

A recurrent budget is to be determined for the preferred service model. The budget should relate to the current services, proposed new services profile/mix and the difference between the existing and proposed new. The proposed budget should be clearly separated into categories such as operational/staffing, maintenance and consumables.

Notes

**Performance Indicators**

The services plan should have clear measurable performance indicators. These indicators should clearly identify any constraints and/or resources required to achieve the agreed services mix. The performance indicators should be agreed with the Department of Health.

**Consultation**

A draft report, which documents the service plan, is to be prepared. Comparisons of the throughput rate and facilities provided at similar centers are to be made. The relevant agency managers are to review and sign off the service plan.

**Preparation of the Report** - A draft service plan should be prepared and form the basis for discussion with a clear rationale for the recommended options outlined in the draft report.



Caselet

**Case: Differentiating Services – Yatra.com’s ‘Click and Mortar’ Model**

This case study focuses on Yatra.com’s differentiation strategies. Yatra.com became a formidable online travel service provider in India in just about 3 years. However, with increasing competition and intense rivalry, what is the best way to differentiate its services from the rivals?

The turning point for the Indian tourism industry came with the innovative campaign ‘Incredible India’ launched by the Department of Tourism in 2002. In the light of the transformation underwent by the Indian tourism and travel industry from an unorganised state to an organized one, hotels, travel agents and aviation witnessed a boom in their business. Also, the internet boom paved way for the emergence of online travel agents like MakeMyTrip.com and ClearTrip.com in India, who have been dominating the market for a long time. They made travelling a pleasure by offering various services to the tourists.

‘Saving time and money’ is no longer an appealing way of positioning any business, especially an online business. Rather, effectively creating a unique value proposition for the customers, places a company on a pedestal. And to do the same, any prudent company should constantly chart out ways of differentiating itself as it is imperative. However, the big question is, to what extent it would be able to bank on the model in the long run for generating revenues. Also, to what extent can a company in the services sector, that too which is acting only as a mediator differentiate its services.

**Source:** [http://www.ibscdc.org/Case\\_Studies/Marketing/Services%20Marketing/SVM0002.htm](http://www.ibscdc.org/Case_Studies/Marketing/Services%20Marketing/SVM0002.htm)

**Self Assessment**

Fill in the blanks:

- 9. A ..... report, which documents the service plan, is to be prepared.
- 10. The services plan should have clear measurable performance .....
- 11. A ..... budget is to be determined for the preferred service model.
- 12. The estimated peak demand for service for a ten-year period should be used to ..... demand.

13. A ..... should be prepared and form the basis for discussion with a clear rationale for the recommended options outlined in the draft report.

Notes

### 6.1.2 Service Planning Checklist

Given below is one example of service planning checklist

To complete this checklist, mark the tick boxes in the approved column corresponding to the activity done. Afterwards, sign the authorization box and email to the approving Project Manager or similar.

<b>Service Planning Checklist</b>	
<b>Contents</b>	
- Policy Background	
- Identify Need	
- Current Services	
- Future Service Demand	
- Preferred Service Model	
- Links to Other Providers	
- Governance Arrangements	
- Relationship Diagram	
- Links to Other Service Providers	
- Proposed Staffing / Management	
- Structure	
- Proposed Budget	
<b>Approval Process</b>	
- Departmental Approval	
- Programs	
- CMB	
- Region	

#### Service Planning Checklist Authorization

Certified by	
Principal Consultant	Date

Endorsed by	
Consultant Project Manager	Date

Checked by	
CPSP Project Manager	Date

### 6.1.3 The Services Plan Report

#### Approval of Service Plan

*Final Report* – A final draft of the services plan should be submitted to the agency managers to review and approve prior to it being approved by DHS.

**Notes**

*Approval of the Service Plan* – The service plan should be signed off by the agency, regional manager and Program Area before the final endorsement and proceeding with the business plan.

**The Service Plan - Pro Forma**

The service redevelopment plan report could include the following:

An executive summary indicating:

- Service name
- Objective
- Target group/clients
- Implementation strategy
- Performance indicators
- Time frame for implementation.

The documentation of the preferred service model should include the following:

- The broad policy background to service redevelopment and reorientation
- Identification of assessed need
- Current organisation – description
- The preferred service model
- Proposed services and activity levels for the range of services to be provided by the organisation within a defined time frame
- Links with other service providers. This section should outline the relevant and appropriate links that are critical to an improved quality of care for clients, and a coordinated approach to the local reorientation of services
- Relationship Diagram
- Proposed staffing and management structure. This should include areas for continuing education and staff retraining to enhance reorientation to identified needs
- Proposed budget profile
- An analysis of current and future income and costs which must be accurate and comprehensive and take into account service demand adjustments
- Brief descriptions of the other service models will need to be given together with an outline of the consultation process and rationale as to why the preferred service model was chosen

Review of existing Agency services in terms of the following:

- Mission Statement
- Objectives
- Key outcomes (over the last three to five years) current service/programs and recurrent funding levels
- Key alliances and agency relationships in the catchment area

- Current management and staffing structure
- Features of the local community including cultural traditions, community values and attitudes, dominant employment patterns and housing.

Notes

## Self Assessment

Fill in the blanks:

14. A final draft of the services plan should be submitted to the ..... to review and approve prior to it being approved by DHS.
15. The service plan should be signed off by the Agency, ..... and Program Area before the final endorsement and proceeding with the Business Plan.



Case Study

### **Case: The Florida Cooperative Extension Service Marketing Problem**

**D**r. Mike Martin sits at his desk at the University of Florida (UF). As UF's Vice President of Agriculture and Natural Resources, he's had to make some tough decisions lately that have had significant impacts on UF staff and programming all over Florida. Budget cuts have forced the closing of two major Research and Education facilities, and changes to the Extension program are forthcoming. As he mulls over comments made at a recent Advisory meeting, he considers the Florida FIRST marketing initiative he implemented 3 years ago—an initiative that was intended to make the public aware of the benefits and services offered by Extension and the Institute of Food and Agricultural Services (IFAS), thus creating a demand for their programs and making budget cuts in this area more politically unpalatable. Dr. Martin knows that Extension has often been referred to as "the best kept secret in county government." What can he do to get the secret out?

#### **The History and Purpose of IFAS/Extension**

The University of Florida has many claims to fame and notoriety, but it holds one title that most have never heard about—it's a land-grant university. Land grant universities were established under the provisions of the first and second U.S. Morrill Land-Grant College Acts in 1862 and 1890—laws meant to "promote the liberal and practical education of the industrial classes in the several pursuits and professions in life" by establishing colleges to teach "such branches of learning as are related to agriculture and the mechanic arts." These laws were strengthened in 1887, when Congress established agricultural experiment stations, and again on May 14, 1914, when President Woodrow Wilson signed the Smith-Lever Act establishing Cooperative Extension Services and specifying that they be associated with a land grant college. Federal funds would be matched by state and local funds, and used to support experiment stations and Extension offices, all operating under the auspices of the land-grant university in that state.

The UF/IFAS is a federal, state, and local government partnership dedicated to education, research, and Extension, a result of the University of Florida's designation as a land grant university. Operating as part of IFAS, Extension serves each of the state's 67 counties by providing information and conducting educational programs on issues such as sustainable agriculture, competitiveness in world markets, natural resource conservation, energy

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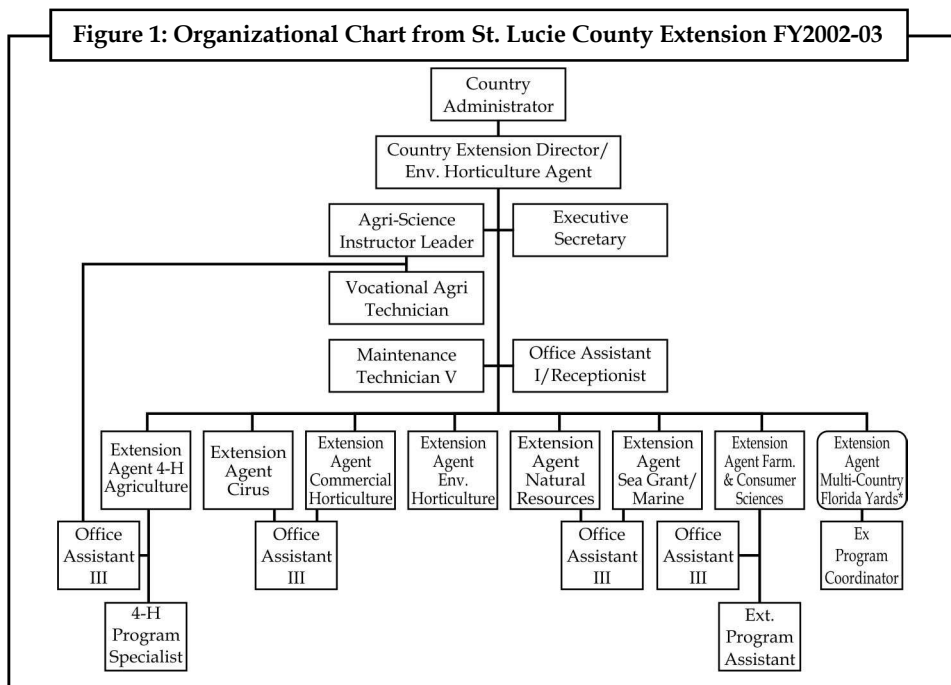
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conservation, food safety, child and family development, consumer credit counseling, and youth development. These subject areas are very broad, allowing UF/IFAS staff to focus their efforts on more specific facets of these areas.

The IFAS/Cooperative Extension Service in Florida has evolved over time to become a county-based program. A majority of the funding for Extension comes from the individual county governments. County Extension offices are usually located closer to rural areas of a county rather than clustered with other county offices. There are more than 67 Extension offices now serving the state of Florida.

In general, each office will house two or more Extension agents, who may be fully university funded, fully county funded, or funded by a combination of sources. The subject areas of the agents in that county are based on the agriculture industries found in the area. For instance, Okeechobee County's economy is largely supported by the dairy industry, so one of the agents working at the Okeechobee Extension Office is a Dairy/Water Quality Agent. The nearby counties that are more economically supported by the citrus industry have a multi-county commercial citrus agent to rely upon. Most counties in the state, but certainly not all, have one or more horticulture agents in their Extension office. Some counties have enough staff to be able to provide their communities with a Homeowner Horticulture Agent, Commercial Horticulture Agent, and an Environmental Horticulture Agent. Almost every county in the state supports a 4-H Agent, who may also have a combined focus, such as 4-H/ Agriculture or 4-H/ Family and Consumer Sciences.

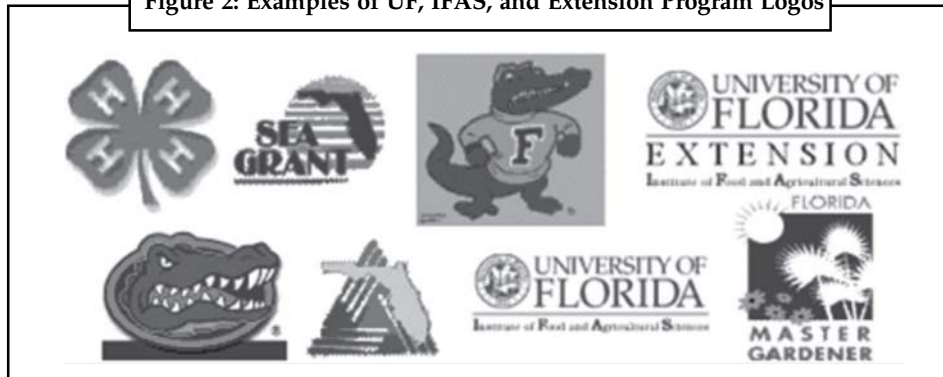
Across the state there are agents who focus on dairy cattle, beef cattle, natural resources, energy and housing, marine sciences, water quality, and more. Extension agents' programs are often delivered by Program Assistants, who are usually supported by county funds, as are the clerical support and office manager positions in the counties. Figure 1 shows an organizational chart from a typical county Extension office, the St. Lucie County office. In addition to the permanent staff, there are almost 300 4-H volunteers and 82 Master Gardener volunteers working at the St. Lucie County Extension office.



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IFAS and Extension are made possible because of the cooperative efforts of many contributing organizations. Each of these entities is recognized for its participation on every IFAS document that is distributed to the public. Along with that, agents and county support staff are instructed to include identification on created documents for all contributing organizations, whether they are outside sources, departments or programs within IFAS. Figure 2 shows examples of some of the logos that may be included on a program announcement. Figure 2 does not show the different county logos that could also be included, because there are too many to depict in this document, but it is important that county support be recognized. Because the effects of image marketing—and therefore branding—build over time, consistency is critical. Every piece of communication should support the brand and be consistent over time (Maddy & Kealy, 1998).

**Figure 2: Examples of UF, IFAS, and Extension Program Logos**



#### UF/IFAS Extension Product Analysis

The product provided by IFAS/Extension is non-biased, research-based information that county residents are invited to use to make sound decisions regarding natural resources, human resources, and agriculture issues. The depth of the information is often staggering to those unfamiliar with Extension. From calibrating a micro-irrigation system, to building a bat house, to learning about food safety, to obtaining a pesticide license, to raising a healthy dairy cow, it doesn't seem to stop. The price for Extension materials is unbeatable—almost everything is free. If a program has an associated charge, it can only be an amount sufficient to cover the cost of offering the program, such as handout duplication or payment for a guest speaker's travel expenses, or any provided refreshments.

**Strengths and Weaknesses of UF/IFAS Extension:** IFAS/Extension's strength lies in its resources—the information Extension provides via publications, programs, and individual consultations; the human resources that deliver the information; and the support of community leaders and decision makers to ensure the continuation of Extension programming. It's also a result of the growing value of information. Extension information is reliable, non-biased, and researched-based and has the backing of the prestigious University of Florida. In many areas of programming, Extension is seen as the sole information source or clear leader. These areas include the 4-H Youth Leadership program, Pesticide Applicator Certification program, commercial producer education, and landscape management education.

Extension agents strive to be viewed as the authorities in their fields by the community; the public's trust and reliance are very important to agents and the future of Extension. They work hard to develop programs that are informative and interesting, using resources provided by research faculty and Extension specialists.

Unfortunately, agents are fighting an uphill battle with recognition. A recent random telephone survey by IFAS suggested that Floridians have low awareness of UF/IFAS and

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its major sub-units and the association between UF and local Extension programs appears tenuous (Breeze & Poucher, 1999).

Alternately, IFAS/Extension's weaknesses can be seen in its slow reaction to changing community needs. Agents need to be aware of the changing population and demographics in Florida and offer programs accordingly. Programs that are outdated but still offered to low numbers of participants are costly, a waste of an agent's limited time, and provide a false impression about the need for Extension programming. It reduces the impact of agents' efforts. In conjunction with that, agents who cannot establish themselves as their community's leading authority, or become known for providing uninteresting programs, can also be detrimental to the overall Extension program.

Extension Agents are asked to track several statistical data points throughout the fiscal year and report their impacts annually in a Report of Accomplishment (ROA). They keep records on the number of programs they offer and the number of participants at those programs, as well the number of fact sheets they distribute, how often they use mass media, and how many clients they assist, whether at the office or on a site visit.

Agents are also required to submit an annual Plan of Work (POW) outlining the focus of their next year's programming efforts. Agents are evaluated on the measurability of their goals and objectives, as well as their intended program impact, and number of participants who indicate they will change their practices based on information they gained. Agents receive instruction on Affirmative Action guidelines and requirements, and must report annually on their efforts to include minority participation in their programs.

UF staff in Gainesville compile data from agents' annual ROA's to develop statewide statistics on Extension participation. Programmatic impacts are measured, and this information is used to determine the need for certain programs. Given that Florida's state population in 2000 was over 15.4 million, the corresponding year's statistics indicate that only a very small percentage of state residents were participating in Extension programs, especially since many participants take part in multiple programs.

In reviewing the annual data reports, one must realize that, due to the way that contacts and impacts are recorded, one person's contact with Extension can represent many data points in the report. For example, a gentleman enters an Extension office with a question about his landscape. Before that person leaves the office, the Master Gardeners and each agent who speaks with him will count him as a contact, and each publication he is given will be counted as a publication distributed. A class of 30 participants becomes 60 contacts after the second day. A 5-day, 4-H summer camp with 15 participants will become 75 contacts by the end of the week, and even more if other agents provided a segment during the program. This method of reporting can lead to misleading numbers on which to measure demand for services, but impressive numbers on which to request state and county funding.

***The Florida FIRST Program:*** Dr. Mike Martin has been spearheading a strategic plan called "Focusing IFAS Resources on Solutions for Tomorrow" (FIRST) since 1998. He has stated that "at the time of implementation, the plan was intended as a road map for growth, but because of the economic changes felt throughout the state over the last three years, the plan has now become a road map for protection." Dr. Martin is aware that not everyone likes Florida FIRST, but he's adamant that there has to be some method of measuring effectiveness and accountability.

In developing the Florida FIRST program, stakeholders across the state identified areas of importance on which they felt IFAS should focus. Studies had shown that a booming economy had triggered an impressive growth in the Florida labor market in the past 20

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years and that Florida's overall population was expected to grow to more than 20 million people by 2025, a 33% increase compared to projections for the year 2000. The population explosion triggered growing concern in the state over land use, and conflicts between rural and urban development. The impacts on natural resources, especially water, were also recognized. Stated objectives for IFAS/Extension programming efforts were developed that included:

- Evaluations of the relevance of various parts of the UF/IFAS program-delivery system,
- Increased collaboration with other public and private agencies and institutions to reduce duplication of programmatic efforts throughout the UF/IFAS organization,
- Improved coordination of UF/IFAS programs statewide,
- Development of an expanded stakeholder base,
- Formation of a broad-based advisory panel,

**Table 1: IFAS/Extension Activities and Impacts for 1999 and 2000, Statewide and Selected Counties**

	IFAS/Extension Activities and Impacts for 1999 & 2000, Statewide and Selected Counties											
	Statewide			Alachua			Honroe			St. Lucie		
	1999	2000	% change	1999	2000	% change	1999	2000	% change	1999	2000	% change
Letters/E-mail	300,600	598,194	99.0%	9,258	6,396	-30.9%	178	2,005	1026.4%	6,845	6,508	-4.9%
Office Visits	183,031	199,786	9.2%	1,446	1,195	-17.4%	517	183	-64.6%	1,473	9,218	525.8%
Calls	620,583	760,019	23.9%	6,018	6,406	6.4%	2,535	1,678	-33.8%	3,952	7,446	88.4%
Visits to Clientele	99,151	105,352	6.3%	332	266	-19.9%	314	121	-61.5%	1,408	1,449	2.9%
Learning Events	54,073	92,144	70.4%	245	262	6.9%	108	154	42.6%	304	1,204	296.1%
Participants	1,353,584	2,721,438	101.1%	8,637	7,107	-17.2%	3,179	5,756	81.1%	37,750	159,812	323.3%
Instruction hours	256,618	8,202,651	984.1%	453	13,778	2941.5%	3,526	96,617	2640.1%	937	45,330	4737.8%
Mass media used	11,859	1,870,539	15673.2%	98	110	12.2%	72	91	26.4%	481	1,256	161.1%
Contracts through mass media	131,522,953	n/a		13,430	4,319,137	32060.4%	602,840	n/a		391	n/a	
Web page hits	342,462	3,689,927	977.5%	2,152	6,742	213.3%	42	421	902.4%	344,355	4,708	-98.6%
Materials prepared	75,681	121,462	60.5%	77	64	-16.9%	45	78	73.3%	1,184	7,641	545.4%
Direct mailings	1,146,077	2,036,076	76.1%	10,753	23,355	117.2%	2,070	2,592	25.2%	14,056	23,940	70.3%
Other materials distributed	1,169,904	2,309,454	97.4%	1,086	1,678	54.5%	1,209	11,044	813.5%	1,699	134,916	7840.9
Number of volunteers	41,781	58,649	40.4%	336	424	26.2%	96	184	91.7%	2,213	2,655	20.0%
Hours training volunteers	41,810	160,013	282.7%	166	641	286.1%	1,579	682	-56.8%	960	7,219	652.0%
Hour volunteered	1,726,962	2,575,149	49.1%	17,963	31,303	74.3%	11,523	2,221	-80.7%	28,637	40,145	40.2%
Volunteer contracts	2,711,722	4,121,688	52.0%	19,347	4,217	-78.2%	1,624	975	-40.0%	38,006	52,332	56.1%

Source: UF statewide Annual Impact Report for 1999 and 2000

- Increased conversation to evaluate the Florida FIRST effort with individuals and organizations at the grass-roots level, and
- Enhanced public awareness of the UF/IFAS brand among stakeholders and the general public.

To meet the last stated objective, Public Service Announcements (PSA's) were developed, pamphlets and brochures were printed, and Web site development escalated. As part of the program, each of the Extension offices in the state was provided a Florida FIRST

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toolbox—a sturdy polyurethane toolbox filled to capacity with many different types of promotion materials. The PSA's were on videotape in the box for agents' use, and Extension pencils and bookmarks promoting Extension Web sites filled the top tray; all very handy marketing tools. Ideally, an agent on his or her way to a program would be able to just pick up this toolbox and use the contents to promote Extension and help the audience to identify these programs with their sources. Public awareness was recognized as the best way to implement a "pull marketing strategy" rather than a "push" for IFAS/Extension's services. The public couldn't demand that their local representatives support IFAS programs unless they knew how IFAS benefited them.

**IFAS/Extension's Current Situation**

Dr. Martin again mulls over the comments put forth at the meeting by stakeholders from the Treasure Coast, a three-county area located on the east coast of Florida. They agreed that the need for change is imminent. The county Extension offices were originally developed on a county-by-county basis because studies at the time suggested the average farmer could only travel 18 miles round trip in one day. When Dr. Martin had suggested that regional instead of county-based Extension offices might be the future, the audience of stakeholders didn't balk (but they still insisted 4-H have a county focus). Most important, he saw that even those people already involved with IFAS and supporting it as these people did, still had no clear understanding of the number of different subject areas encompassed by Extension.

Dr. Martin told the group, very truthfully, how much he appreciated their time and willingness to share their opinions on how IFAS/Extension is doing, but seeing how far uphill their battle still had to go was a bit disheartening. Informal studies had shown that more than 65% of the general public still did not know where their County Extension Office was located, were not aware of the information and service provided there, and did not know that their tax dollars supported the County Extension Office. The survey of potential customers clearly contradicts the impression made by the impact statistics. Obviously, the secret was still not out. Dr. Martin suspected the toolboxes were not being used; perhaps Agents were busy enough keeping up with the demands of those already familiar with Extension and did not see the same motivation to promote IFAS/Extension as he did. The impact data Dr. Martin was reading was not completely consistent with his personal findings in the field.

Three years after Florida FIRST was implemented, the imperatives identified were still basically the same, although one stood out above all the others as being the highest priority for UF/IFAS: water management, quality, and allocation. In reviewing the program offerings statewide, Dr. Martin saw that Best Management Practices (BMP's) programs were being offered on a variety of topics. A program being implemented in some coastal counties, the Florida Yards and Neighborhoods Program, promoted water quality and use awareness. Water issues seemed an area that would be in more demand in the future, and IFAS needed to be prepared to meet those demands. Showing their ability to prepare for impending state needs could help establish IFAS again as the clear leader and source for information.

The public's awareness of IFAS/Extension and their belief that the information found there is the best information they can obtain at the lowest cost is key to Extension's success in the future. The opportunity to provide statewide leadership and programming on key issues that will soon affect all segments of the population is there. The threat to IFAS/Extension comes in its inability to identify those programs that are key to its success and

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retaining the proper staff to promote those programs. IFAS/Extension also needs to be aware of those areas where the private sector or other organizations are duplicating their efforts.

**Questions:**

- On which program areas should IFAS/Extension focus its resources?
- What programs can and should be eliminated?
- How can IFAS create more awareness of the overall Extension program and the programs of individual counties?

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Source: <http://www.joe.org/joe/2004august/a5.php>

## 6.2 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- The service plan needs to express the above objectives in context of the local situation in consultation with service providers (both public and private), community members and departmental representatives.
- It is vital that in setting objectives for the relevant organisations, they can be evaluated and measured in terms of achieving projected changes in services to clients, service structure and profile.
- A “catchment” is a defined geographic area.
- The catchment boundaries are to be defined with reference to administrative boundaries, service delivery patterns and transport networks.
- A brief description, of the physical geography, history of the area and local economy, may assist in providing an understanding of the service demands.
- A map should be prepared showing the area of the catchments, major towns, suburbs, transport links and any other relevant information.
- Statistics on service demand and utilization are to be analysed and compared with rates for similar examples, both Statewide and nationally.
- Variations from the norm should be discussed. Accepted Departmental benchmarks should be considered.

## 6.3 Keywords

**Catchment:** A “catchment” is a defined geographic area.

**ROA:** Report of Accomplishment

**Catchment Boundaries:** The catchment boundaries are to be defined with reference to administrative boundaries, service delivery patterns and transport networks.

**POW:** Plan of Work

**Service Planning:** The process of “Service Planning” defines the core services to be delivered to the community, in conjunction with the necessary ancillary or support services, also required within a prescribed timeframe.

**Ancillary Services:** These services are administration, hotel, training, engineering and supply services which would be assessed on the basis of historical information, relevant/current Government policies and future demand requirements.

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**6.4 Review Questions**

1. Discuss the process of Service Planning.
2. Define the term of service planning
3. What is the importance of service planning?
4. How a report can be prepared in service planning?
5. Draft a pro forma for the report of service planning.
6. From which authority a final draft of service planning can be approved?
7. Define the term catchment.
8. Prepare the checklist for the service planning format.

**Answers: Self Assessment**

1. Service Plan
2. conflicting
3. Catchments
4. information
5. Location
6. service
7. Service Plan
8. ten-year
9. draft
10. indicators
11. recurrent
12. calculate
13. draft Service Plan
14. Agency managers
15. Regional Manager

**6.5 Further Readings**



*Books*

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US  
Leonard L Berry, *Great Service: A Framework for Action*, The Free Press  
Ravi Shanker, *Services Marketing*, Excel Books, New Delhi

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi

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Online links

[www.marketingteacher.com/.../lesson\\_services\\_marketing](http://www.marketingteacher.com/.../lesson_services_marketing)

[www.online-pr.com/Holding/ServiceMarketingSecret](http://www.online-pr.com/Holding/ServiceMarketingSecret)

<http://dis.shef.ac.uk/sheila/marketing/services.htm>

<http://www.mba-tutorials.com/marketing/165-products-vs-services.html>

<http://www.capital.health.vic.gov.au/capdev/ProjectProposals/ServicePlanning/>

## Unit 7: Delivering Services on the Web

### CONTENTS

Objectives

Introduction

7.1 Delivering Services on the Web

7.2 Role of Internet in Services

7.3 Role of Technology in Service Marketing

7.4 Cost Drivers

7.5 Internet Service Design

7.6 Summary

7.7 Keywords

7.8 Review Questions

7.9 Further Readings

### Objectives

After studying this unit, you will be able to:

- Elaborate the delivering of services on the web
- Explain the role of internet in Services
- Discuss the various cost drivers
- Describe the internet service design

### Introduction

During the past two decades the world's high technology business community has witnessed an unprecedented high growth and an overwhelming optimism, which seems to have turned into either stagnation or decay. Markets have been growing at double-digit annual growth rates in especially two areas: information and communications technology (ICT) and biotechnology. ICT received a turbo-boost through the proliferation of the World Wide Web starting in 1989 but reaching ultrahigh speed around the mid 1990's with the emergence of electronic commerce (EC) and the resulting avalanche of small start-up IT companies pursuing success and wealth. Later, biotechnology started in 1980 with the first initial public offering (IPO) by Genentech and experienced its first wave of success during the early 1980's, only to meet its first decline towards the end of the decade and then to jump-start the growth trend again by the mid-1990s. Today, both sectors are in trouble again, which is due to an overestimation of what technology can accomplish by itself and a fundamental underestimation and ignorance of market dynamics including customer needs, wants, fears and expectations.

### 7.1 Delivering Services on the Web

Technology refers to the means by which a firm transforms inputs (labour, knowledge, capital, raw materials) into outputs (goods, ideas or services). It means knowledge that can be applied. Thus, a bank has its technology for converting capital, ideas and labor into many banking services; Google the search engine uses its technology to provide search and access services for Internet customers, much faster and more effectively than its competitors.

It has been an accepted fact that technology would shorten business process, remove repetitive work done by human hands and – with rising wages – lower the cost of production and transactions. Post-liberalisation, there has been more inclination to adopt technology strategically by Indian firms. There are other controllable and non-controllable factors that go on to dampen the total effect, like the increased hiring of subordinate staff in Indian banks, although there has been a marked decline in the strength of officers and clerical staff. In spite of the scale of adoption, there has been relatively little research to date, in India, on mapping the effectiveness of the strategic shift or its impact on competitiveness. There has been no correlation found between investments in IT in services and productivity and profitability. In fact, coinage of the term “information technology paradox” arose from the inexplicably slower growth in service productivity when compared to manufacturing with equivalent investments in IT.



*Note* Tata Consultancy Services uses its technology for Knowledge Management (KM) which helps in their quality analysis and proposals for their clients.

Some of the reasons for information technology not having the desired impact on services are:

- **Wasteful and inefficient use of IT:** It was being used to automate inefficient systems and processes without any corrective measures on the systems. There was no guarantee that competent people were handling the IT systems. In the India context, it was illustrated by the classic case of PSUs going in for IT without upgrading people’s capabilities.
- **Lagged effect:** The positive effects of IT, if any, were taking time to be effective.
- **Outdated methods of productivity measurement:** Current methodologies of measurement were not reliable for services where its unique characteristics make it a challenge for quality assessments.
- **Impact of other problems:** IT may be only one of the factors affecting service productivity.
- **Level of aggregation:** Effectiveness of IT should be viewed in isolation to any department, but in relation to the service firm as a whole.

The socialists were strident in their criticisms that technology adoption by the management was only a ruse to avoid being accountable to stakeholders, and there is a need for more research in this area—to study the trend and its impact on competitiveness. This unit analyses trends in technology adoption in the service sector by global and Indian firms and investigates their effectiveness and impact on their respective competitiveness. The intention is to highlight the following:

- The erstwhile attitude and perception of the Indian labour, management and the bureaucrats on technology adoption
- Technology as a ‘Viagra’ for productivity and competitiveness
- The paradigm shift of PSU stakeholders with regard to the utility of technology
- Technology as the final equaliser for Indian firms in global competitiveness
- Dangers of ‘over-expectation’ from technology.

The reasons for the adoption of technology by the service industry are many and varied:

- **Expanding or preserving market share, market presence and market size:** These are accepted performance measures and benchmarks for a service firm’s power which can be leveraged in supply negotiations.
- **Lowering or avoiding risks or alternative costs:** High technology makes many judgments more accurate and service better.

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- **Improving the “enabling” environment for the internal customers:** Ergonomic (the science of comfort) work space or comfortable work environment like climate controls, faster computing tools and connectivity (Internet, cell phones, V-SAT, etc.)
- **Improving the quality of services and interactions with the customers (Moments of Truth):** The elements of customer satisfaction and quality service are reliability, consistency, accuracy and speed of service.
- **Creating flexibility for changing business environment:** With swift-changing environment factors like government regulations, economy, complexity of operations and changing consumer preferences, investments in IT would enable service firms to better cope with change.
- The paradigm shift in attitude and perception of Indian labour, management, PSU stakeholders and the bureaucrats on technology adoption.

Management saw in it a solution for cutting costs and increasing production while labor perceived it as a threat to their jobs. Post-nationalization, public sector banks (PSBs), witnessed militant labor that fought tooth and nail against mechanization. Textile mill management wanted to introduce high speed Sulzer looms which the labor opposed; Food Corporation of India labor opposed bringing in forklifts that would help in efficient stacking of sacks of food grains, etc. PSB managements, government and Indian Banks Association (IBA) the nodal agency for PSBs had a harrowing time throughout the turbulent eighties in negotiation for computerization of banks – making them lose a decade-and-a-half of lead time which would go on to haunt them later, proving costly and weakening their competitiveness. Life Insurance Corporation of India (LIC), the country’s only life insurance firm for over half-a-century could not introduce microprocessors in their offices for similar reasons. Today, they have, within a span of four years, lost 13% of their market share, key personnel and leadership in innovation.

It is officially admitted by a lot of intellectuals (Nani Palkhivala), industrialists (Ratan Tata), professionals, bureaucrats and sociologists that India has missed many buses and “lost the eighties”. Over the last decade-and-a-half, there has been a paradigm shift in the thinking of the Indian workforce, public sector undertaking stakeholders, decision-makers and other opinion leaders on technology adoption and other prickly issues like business process outsourcing. State Bank of India, LIC and Punjab National Bank are investing heavily in IT. PNB is the largest implementer of People Soft system amongst all PSUs.



*Caution* Management and labor, for better or worse, have always perceived technology differently, forever curdling their respective attitudes and decisions to adopt them, and forcing them to take adversarial roles.

### 7.1.1 Indian Online Retailing Scenario

The Indian economy is slated to grow by upward of 6 percent annually in the next few years which is among the highest rates of any big emerging economy. And quite a lot of this growth would be on the back of domestic consumption of goods and services. E-commerce is emerging as a great leveler given that organized retail is still not ubiquitous across the length and breadth of the country with large retail chains making up less than 10% of the market.

E-commerce is helping people in smaller towns in India access quality products and services similar to what people in the larger cities have access to. Its being forecast that close to 60% of online shoppers would come from beyond the top eight large cities by end of this year.

India has 50-100 million internet users and they are increasing at a rate of about 30% a year. In 2011, 17 million users purchased something online as compared to 10 million in 2010. With



more and more users willing to buy online, India is on its way to becoming one of the leading e-commerce hubs in the future thereby attracting competition from various online shopping firms. It's been a month since the world's largest online retailer Amazon has entered the Indian markets. The online retail firms like Flipkart and EBay are expected to leave no stone unturned to maintain their dream run in India, but the million dollar question that who will win the race remains unanswered.

The Amazon entered the Indian market through Junglee.com. This was because of the FDI restrictions in multi-brand category. The site says "online shopping serviced by Amazon, which enables customers to find and discover products from online and offline retailers in India and from Amazon.com." Previously there were rumors that Amazon wished to acquire Flipkart but due to the heavy demands by Flipkart, the deal could not precede.

Founded by Sachin Bansal and Binny Bansal, formerly employees at Amazon, Flipkart is among the top 30 Indian websites and also the largest online bookseller in India. The company claims to have gained around 100% gain each year since its inception in 2007. They started with selling books, but as they seemed to find success with their marketing strategies, in 2010 they expanded their catalogue to CD's, DVD's, mobile phones, cameras, home appliances and lot more goods. With the increase in usage of Internet and people getting adapted to purchasing online, Flipkart looks set to cross the 500 crore sales mark this year. No tedious payment procedure, an extremely user friendly website interface and straightforward login procedure makes Flipkart the first preference for online shoppers in India. One can avail a discount of 15-20%, in some cases even 40% on nearly all the books, which makes one think twice of going to a bookstore and wasting precious time and effort. Designed by keeping in mind the stereotypical money-minded, overcautious and over-concerned nature of the Indians, who are relatively new to online purchasing, there are a very few flaws one can point out in its business model. Keeping the same in mind, they have recently started 30- day replacement guarantee which will surely draw more users to it in near future.

Talking about EBay, it's different from Flipkart in more than one ways. Unlike Flipkart, it's not only a shopping site but one can also auction a wide variety of goods and services. It is one of the few sites which come first to someone's mind when talking about online shopping. It started in 1995, and without a doubt it can be called one of the biggest success stories of the dot com bubble. It entered India in 2004, by taking over Mumbai based bazee.com at a price of ₹ 230 crore. The sellers can sell their products at their own price by making an online account which is something one won't get on Flipkart. Coming to their range of products, there's hardly any site which can match it. The best part of all their policies is the PaisaPay which ensures that sellers don't get money from EBay until the customer is completely satisfied with the condition and quality of the product. Besides this there are lots of coupons and vouchers one can avail by subscribing to their daily newsletters. The problem with eBay is that the refund process is complex and takes time. Also, since anyone can sell their products at EBay, there are chances that one might get duped by untrustworthy sellers.

Created in 1994, Amazon started as an online bookseller but in the later years, enhanced their range to a lot more goods and services. Unlike eBay, it is not an auction website. Initially they started with the option of auctioning goods, but since EBay had already established their dominancy in that area, they had to work out another system. Thus presently, one can buy/sell goods at Amazon at only fixed price. Since Flipkart does not offer this option, it is pointless to compare it over here. Due to the extraordinary customer support in Amazon, it looks like to be the future lead. Comparatively, it has been found out that customer response in EBay is not as good as in Amazon, because the number of employees in EBay are a lot lesser than that in Amazon and Flipkart.

In terms of reliability, Amazon and Flipkart are definitely better than EBay because there are a lot less frauds that take place there. When it comes to selling, you can sell anything on EBay

**Notes**

but on Amazon you can sell only those goods which are already available otherwise recommendation is needed from Amazon. There are listing fees on EBay but no listing fees on Amazon, so you have to pay lesser on Amazon. So in other words, one may say that if you want a hassle free deal prefer Amazon and Flipkart, but if you are willing to pick up a good deal, EBay is the appropriate place. About the speculation that Amazon, largest online retailer in the world, may be looking at buying Flipkart, Bansal says, "Talk of any future acquisition will be speculation and we would not like to comment. We would like to work on our strengths and address the challenges this market is facing. All of this will require a lot of time and investment and selling our business does not feature in our plans. We intend to establish Flipkart as the largest retailer in the country."

**The Real Issues:** The Indian retail industry has always thrived on personalization. The grocer, tailor or even the mom n shop apparel store owner knows the preferences, remembers customer's taste, budget and previous purchases. They sense the customer's mood too – which no CRM software can claim to do.

Trying to personalise each customers experience – might be one way to grow. The Indian consumer is still very need oriented, not very impulse or deal oriented like the American counterparts. Hence it might make sense to create real consumer centric promotions constantly that provide real value to the Indian consumer. Slowly but surely this is happening in India.

There have been horror stories about receipt of bad or wrong goods, delayed deliveries, no response from the company – which adds up to not trusting the online retailers. Through this changing – albeit slowly, thanks to automation and technical integration.

Touch points to focus on:

1. **Customer is the King:** A good 24/7 customer service through email, chat and toll free phone is what the E-tailers are providing. Customer complaint resolution – whether, delayed delivery, product quality, wrong product delivered will certainly work towards long term customer relationship, retention and acquisition.
2. **Supply Chain:** Most customer complaints and delivery returns can be traced to the supply chain vendors or merchants. They are in fact the most important internal customers. It is important to have the supply chain vendors or merchants well integrated into the system – both technically and strategically.
3. **New Business Models:** E-tailers always search new and innovative business models. Case in point being US based Power Reviews – where it provides free review technology to E-tailers and all it asks in return is that the reviews collected on the retailer's web site are syndicated, which is then aggregated on the Buzzillions.com, its sister website. Some Indian sites simply collect orders over a period of time say a week, order in bulk from the vendor and finally ship it to customer at a discounted rate. The customer is told beforehand about the delivery date, of course.
4. **Comparison Shopping and Customer Reviews:** All the E-tailers are present on comparison shopping sites is of paramount importance – especially since people now visit these sites before they place the order. Being present on well known sites such as compareindia.com and wize.com is a very good idea. Also they encourage customer to write the product reviews – nothing authenticates their offering to an undecided customers like a good product review.

## **7.2 Role of Internet in Services**

With the popularity of the Internet ever increasing, it has now become one of the most common ways of doing business: e-commerce. Although e-commerce was often associated more with the

larger companies, small businesses have now benefited from joining the bandwagon.

Notes

The Internet acts a shop window for your business where your particular web site will allow consumers to view or purchase your product(s)/service(s) online.

The Internet can also be used as a marketing tool, purely promoting your products, which will aim to result in more sales from other distribution channels.

The Internet can help target consumers worldwide although it may be more feasible for consumers to purchase from within the nation (due to costs of postage or feasibility of using the service). The obvious cost of using the Internet for sales is the original set-up and consistent maintenance, as well as the administration.

Some small businesses are purely Internet orientated selling services and products completely via their web site i.e. at any time, they will have no personal contact with the consumers.



*Example:* E-commerce sites like ebay.com and amazon.com provide services online.

E-commerce mainly consists of distribution, purchase, sale, marketing and provision for supplementary information of products or services via the Internet. E-commerce also includes the transfer of information between enterprises. In late 70s, E-commerce started as a process of sending and receiving electronic documents such as invoices. As the process evolved, it included activities such as purchase of goods and services via Internet by using different types of purchase cards, i.e. credit and debit cards. Today, E-commerce is spearheading an all new way of buying and selling online.

E-commerce activities fall into identifiable categories and can be classified as Business-to-Business (B2B), Business-to-Customer (B2C) and many more. This article is aimed at discussing these categories in detail:

1. **Business-to-Consumer (B2C):** It is the direct trade between companies and end consumers. This is the direct selling via the Internet. For example, selling goods direct to customer and anyone can buy any products from the supplier's website. In this mode is intended to benefit the consumer and can say business-to-consumer E-commerce works as retail store over internet.
2. **Business-to-Business (B2B):** Business-to-business E-commerce existed in marketing from the very beginning. It is the trade that takes place between companies. Terms like off shoring and outsourcing are generally associated with B2B E-commerce. For example, if I give my company's payroll work to another accounting firm, it would be deemed as outsourcing. The term off shoring decides the outsourcing term further. If the work is outsourced to a company, which is outside the geographical boundary of the country in which the outsourcing company resides, it is termed as off shoring.
3. **Consumer-to-Business (C2B):** In today's E-commerce arena, it is growing trend wherein consumers demand specific products or services from respective businesses. For example, I contact a tour and travel operator via their website for purchasing a holiday package.
  - a. Consumer-to-business E-commerce is growing at a rapid pace and the trend is set to continue in the future.
4. **Consumer-to-Consumer (C2C):** Usually, this type of E-commerce works as Consumer to Business to Consumer (C2B2C). It essentially means that a consumer would contact a business in search for a suitable customer. Most of the auction websites (like eBay) and matrimonial websites are working on this methodology. For Example Quikr is a classified site on internet (on the lines of Times of India classified) that is meant to serve as a free, city based, community classifieds website allowing people in the same city to meet,

**Notes**

trade, share ideas, and in short trade. Customers can post their classifieds on the website for free.

Apart from the types of E-commerce mentioned above, there are various other hybrid forms of E-commerce being practiced in today's globalised world.

## **7.3 Role of Technology in Service Marketing**

### **7.3.1 Market Gap**

Market-orientation and the importance of marketing for business success are not new. Highly respected scholars like Peter Drucker and Theodore Levitt published their classic writings on these subjects as early as 1974 and 1975 respectively. Drucker (1974) argued that the only purpose for a business is to create a customer and that is achieved through marketing and innovations in Marketing Myopia, argues that marketing is largely ignored because top management is wholly transfixed by the profit promises of technological R&D. Levitt also argues that product orientatedness in high technology works well where firms are pushed into new frontiers where they did not necessarily have to find markets but to fill them. It is almost ironic that these statements almost serve as tailored characterizations of what we can observe a quarter of a century later within both ICT and biotech.

### **7.3.2 Innovation**

It is widely acknowledged that there are different forms of inventive activity with different contextual origins and there has been substantial effort ever since the work by Schumpeter in defining common elements of a wide range of innovations. The nature of innovations has been studied as well as different kinds of innovations, i.e., product, process, business concept, incremental, radical, architectural, disruptive, and value innovations

Ability to Innovate: A firm's ability to innovate has been studied looking at the relationship between firm size and R&D productivity. However, the findings are mixed and limited. Henderson and Cockburn suggest there are significant returns to size in, e.g. pharmaceutical research but only a small portion of these returns are derived from economies of scale and argues that close proximity between R&D organisations impact positively on R&D performance. In an almost opposite result, found evidence for decreasing returns with respect to scale in R&D. Suggest that both very small firms and very large firms were proportionally more innovative than medium-sized firms. Paradoxically, mergers and acquisitions of technology firms are often justified by management by the desire to spread costs over a wider base and to gain control of R&D in competitive firms, rather than improving R&D productivity in their own firms. Whatever the case the fact remains that R&D is a source of firm-specific expertise holding significant potential as a source of competitive advantage

### **7.3.3 R&D as Knowledge Management**

More recently R&D has been explicitly linked to knowledge management and organisational learning. R&D and innovative activities are seen as complex search, learning and problem solving processes, which are as much based on existing knowledge as on creating new knowledge. Innovations within the context of knowledge management also include the emphasis on coordination within the firm, its implications for firm and industry structure, and the role of management in facilitating innovations. Grant discusses critical characteristics of knowledge,

which require increasing attention of management, if not the entire organisation. Knowledge form critical success factors related to a firm's ability to create, develop, accumulate, and diffuse specialised knowledge. This suggests that knowledge management within the context of innovations management is an inter-firm as much as an intra-firm activity and is of primary managerial responsibility.

**R&D as Networks:** The role of networks in the development of high growth companies has been well. It is from these networks that firms identify needed resources such as:

1. R&D,
2. Financial resources,
3. Management,
4. Distribution, and
5. Markets.

The importance of Interacting through networking in innovation processes point at the process of creating, developing, and sharing knowledge. Innovation networks are a system of interrelationships that are unfixed, flexible, informal, sometimes even implicit, decomposable, and can be combined and recombined in a wide variety of necessary configurations. The networks facilitate knowledge creation, sharing, and acquisition and sharing of other resources as well.

**R&D as Product Development:** R&D within the traditional corporate value chain has been regarded as a function closely related to product development or manufacturing. However, there are indications that this is changing through the introduction of knowledge management and the fact that R&D is more often performed within networks across traditional corporate boundaries, focus their research on the interaction of marketing and the R&D interface. Additionally, customers are rising as potential innovators, which should be included into the R&D process as early as possible.

**R&D as Relationship Marketing:** Based on the above discussion we suggest in this paper that a more market- and customer-oriented approach to R&D could be obtained by applying a radically different view of R&D activities. We propose adopting a service management perspective to R&D processes. More specifically we propose a relationship marketing approach based on the Nordic school of thought the technological changes, which to our minds have contributed to making R&D and innovations management relational.

## Self Assessment

State True or False:

1. A firm's ability to innovate has been studied looking at the relationship between firm size and R&D productivity.
2. More recently R&D has been explicitly linked to knowledge management and organisational learning.
3. Buyer – seller relationship have always been at the heart of marketing and it seems obvious that the field of marketing will be able to provide some solutions with respect to relationship management within technology firms.
4. Recent scientific advances meant escalating knowledge intensity and an increasing demand for high specific skills within new areas such as genetics, genetic engineering, bio-medical engineering, or molecular biology.

## Notes

### 7.3.4 Changes of Technology

For the past two decades high technology advances have accelerated at a growing speed. Rather than speaking of high technology versus low technology it has become more appropriate to speak in terms of high knowledge intensity versus low knowledge intensity. With high knowledge intensity we mean that advances in knowledge has taken place at such speed within certain industries that cutting edge knowledge – often a basis for competitive advantage – has been rendered obsolete within a year or even within a few months. Within ICT the life cycle of new knowledge has been calculated in terms of months and within biotechnology the life cycle is becoming increasingly short and in some areas can be as short as half a year or one year. Hence access to new knowledge and an ability to create new knowledge has become a major source of competitive advantage, which has also become increasingly costly. For example, the ICT industry embarked on a massive outsourcing trend in the early 1990's and the industry mantra was to focus on core capabilities and to outsource all non-core activities. This was and apparently still is a universal business mantra in any capital intensive industry. In many other industries the IT function was outsourced providing numerous business opportunities. At the same time the World Wide Web (WWW) emerged as a new and extremely powerful infrastructure as well as a basis for business development. The ICT industry was busy filling markets with technologies and applications. They paid very little attention to building strong customer relationships and to ask the fundamental questions: who needs this? Who really needs this? Does the customer really need what we are selling?

**Changing Landscape:** Suddenly, the party was over. Markets matured and the entire ICT sector was facing the challenge of having to find markets. Only a few of those companies, which started out in the 1990's, managed to survive intact. The business was less and less about developing new technologies and more and more about finding new areas of application. Applications, which customers really needed. Those surviving companies did so because they had, from the beginning, paid attention to building customer relationships. Perhaps this is one reason that eBay remains the only significantly profitable e-commerce firm. In ICT this could mean developing user friendly and functional products and services. This is achieved firms can capture profit from the value they create for customers.



*Did u know?* A web service is a black-box component that can be accessed using exposed end points.

### 7.3.5 Changing Responses

Recent scientific advances meant escalating knowledge intensity and an increasing demand for high specific skills within new areas such as genetics, genetic engineering, biomedical engineering, or molecular biology. There simply were not very many people in the world that mastered such skills, and science was constantly discovering novelties increasing the demand for ever-newer skill sets. Advances of biotechnology enabled new small companies to establish themselves as providers of new scientific knowledge, which they offered to traditional pharmaceutical companies. Suddenly the R&D process was disintegrated and the field had to learn how to conduct corporate boundary crossing collaborative R&D. The development of networks and a customer relationship approach to R&D began. The ICT sector was faced with having to find means of learning how to find markets, by learning to build customer relationships together along with developing new technologies. The biotechnology sector faced the challenge of learning to operate their business in a new way based on boundary crossing collaboration, where the partners essentially could be defined as customers, and they occurred at all stages of the R&D process. R&D and innovations management had become relational and success would be

dependent as much on the ability to create new knowledge as on the ability to manage relationships among partners. In both sectors relationship management has become a fundamental source of success. (Buyer-seller relationships have always been at the heart of marketing and it seems obvious that the field of marketing would be able to provide some solutions with respect to relationship management within technology firms.) Not surprisingly, there is a stream of marketing known as relationship marketing - often known as the Nordic School of thought. However, to our knowledge neither ICT nor biotechnology has yet attempted to apply this framework as a basis for managing high technology innovations in a relational context.

## Self Assessment

Fill in the blanks:

5. Technology innovations management and R&D - often used as .....
6. ICT Stands for .....



Caselet

### **Case: SBI helps Customers Shift to eBanking**

**S**tate Bank of India has started to give top priority to technology products. “We are not against personalized approach. But we want our customers to use some of the facilities like Internet banking, ATM, e-rail booking etc offered by us. Customers should get a feel of technology-based products,” Mr Abhijit Datta, Chief General Manager (Chennai Circle).

The bank, he said would shortly be introducing ePayments and salary accounts on the Net. “These products would help the pensioners,” he added.

To popularize these products, SBI has been conducting special programmes on a regular basis, he said and pointed out that the customer care cell in each of the bigger branches help the customers use these products with ease. “We also send out mailers, play CD etc. It is a handholding exercise,” Mr Datta said.

After decades, the bank is now looking at refurbishing the interiors of select branches. About 100 branches in Chennai circle are being refurbished.

“The thrust is on retail lending and customer-orientation. Our men have to go out and do marketing. We have to specialise in sales,” he said.

When asked how SBI proposed to do this and if the employees were willing to move out and market, he said: “The staff has understood the situation. We cannot be complacent any more. But there is a lot of difference between the marketing efforts by the private sector banks and the nationalized ones. We do not engage agents or a third party to market our products. Our men are in direct touch with the customers. We are more transparent in our charges,” he explained.

To a query on sizing down the strength with technology in place, he said “actually, it is not just core banking. Our efforts are now on business process management.”

On inter-connectivity, to facilitate anywhere banking, he said, “40 branches are now interconnected (all India). We propose to extend it to 250 branches by June 2004 and 500 by December 2004. Our target is to cover 2,800 branches in all by March 2006. In Chennai circle, 9 branches have been inter-connected. Another 30 would be inter-connected by December 2004.”

**Source:** Hindu News Bureau, thehindubusinessline.com

### 7.3.6 Technology as a 'Viagra' for Productivity and Competitiveness

**Usages:** In services, technology can find four usages:

- Processing the customer
- Processing the customer's possession
- Processing information
- Creating new services

These are

**Processing the customer:** Technology has application in running over the customer details. This takes place when customers seek personal services like healthcare, entertainment, transportation and even shopping, etc. The processing of the customers can begin before the service delivery or after the main service encounter. Checking a patient's financial capability and his insurance cover in healthcare is an example of the former while waiting in line in a departmental store or a supermarket to pay at the POS counter is for the latter. In either case, the customer has to wait and is irritated. The challenge for the service marketer is to reduce any waiting time.

**Processing the customer's possession:** A customer's material or equipment is being processed and technology can be applied here. Package delivery company DHL/Air Freight uses computers, trackers, V-SAT systems and Global Positioning Systems to track the customer's packages throughout its journey for delivery.

**Processing information:** This is one of the largest areas of technology application – data processing and converting them to usable information. Marketing research firms as well as banks, insurance, stock market analysts, etc. use technology to process data to take intelligent decisions. Consultancy firms like Tata Consultancy Services, McKinsey & Co. and Avalon (with its marketing research analytics subsidiary Ugam) have huge depositories of information called Knowledge Management Centers which process information for them to take decisions or for their clients.

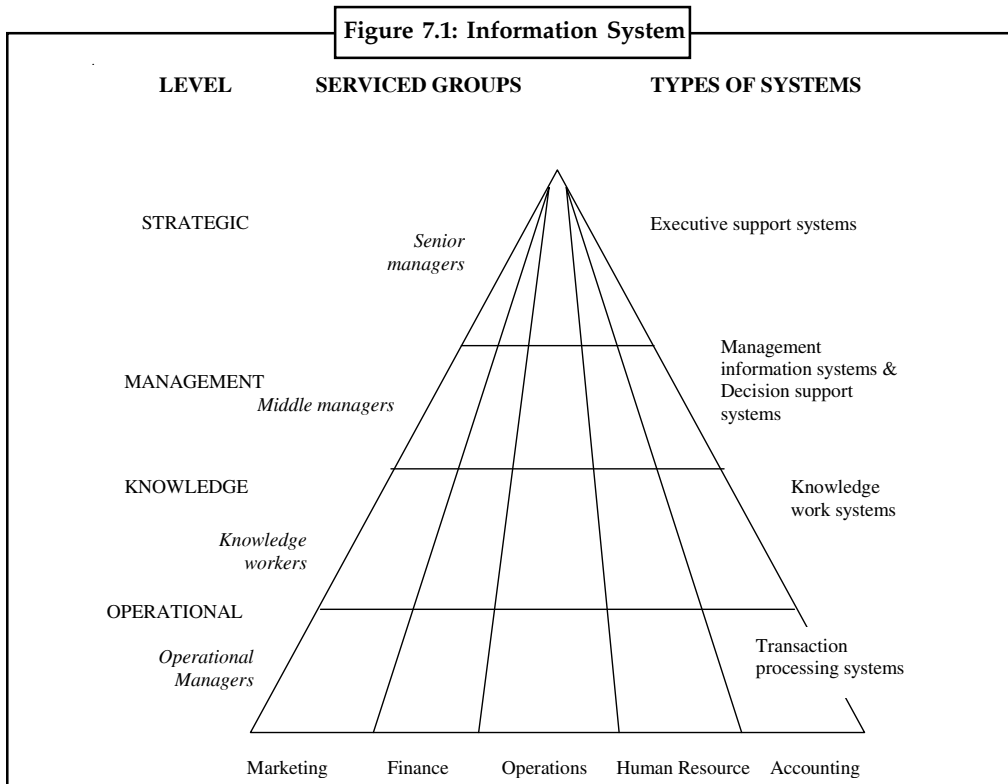
**Creating new services:** Entirely new services have been created through the adoption of new technologies. The Internet is a case in point. Apart from websites, e-commerce services like shopping (amazon.com for books, dell.com for computers), auctions (eBay), and communication (Yahoo!, Hotmail, etc.) have become popular. While VCRs brought in canned home entertainment, VCDs and DVDs made the experience to a higher level of enjoyment, while satellite broadcast technology made it affordable and 24x7.

**Information systems:** Within a service firm, there are different information systems for different organisational levels and for different functional areas like marketing, finance, human resource, etc. The information systems that are developed for different organisational levels are:

- Operational-Level Systems
- Knowledge-Level Systems
- Management-Level Systems
- Strategic-Level Systems

**Operational-level systems:** They are also called transaction processing systems and support operational-level managers by supplying information about payroll, cash deposits, sales, receipts, etc. When an existing customer for home loan asks his bank for an additional top-up loan for repairs and reconstruction, the operation manager looks at the customer's profile, his previous transaction history, and then would be able to decide whether he fits into predetermined criteria. The information system is able to collect process and interpret data, helping the managers to take decision. The business process is very structured at this level.





**Knowledge-level systems:** They are known as knowledge work systems and service internal customers who are software programmers, faculty members in universities, scientists and technicians in research laboratories, engineers, design scientists, economists, etc. The knowledge workers use their knowledge to solve the organisation's problems, tasks and assignments as also create new knowledge.

**Management-level systems:** They are also called Management Information Systems (MIS) and Decision Support Systems (DSS), servicing middle managers. The managers require information and models to carry out their chief tasks like planning, controlling and decision-making. While MIS provides decision makers with periodical (weekly, yearly, etc.) reports on performances, DSS, with the help of mathematical models and other information helps in solving structured and semi-structured problems. DSS helps the manager in scenario building and grapple with 'what-if' analysis.

**Strategic-level Systems:** They are also called executive support systems and service senior management personnel. These systems consist of advanced graphics and communication software, with detailed information on their firm's external and internal environment factors. The top executives take long-term strategic decisions that affect the fortunes of the firm, across all its entire length and breadth.

There is a dearth of research in this particular area of a relationship between technology adoption and enhanced competitiveness in the Indian service sector.

The sectors that have been studied are:

- Government
- Banking
- Retailing

**Notes**

- Education
- Insurance
- Travel
- Logistics

This unit would be useful as a guideline for further studies in the stated area, seeking more correlations and trends with depth research, especially in very specific sectors. There is scope for comparison of the effect on competitiveness between India and foreign firms, private and public enterprises, profit and non-profit organisations, and across sectors, through technology adoption.

Some of the technological developments whose adoption has had a decisive impact on the competitiveness of service firms globally are:

1. Universal Product Code (UPC)
2. Radio Frequency Identification Documentation (RFID)
3. Credit cards technology
4. Electronic Data Capture (EDC)
5. Quick Response Inventory Management System (QRIMS)
6. Enterprise Resource Management Systems (ERMS)
7. Supply Chain Management Systems (SCMs)
8. ATMs with V-SAT
9. The Internet
10. Data mining and data warehousing technologies
11. Imaging technologies
12. Computerised Reservation Systems (CRS)
13. Customer Relationship Management Systems (CRMS)
14. Telecommunication (satellite, cellular phone, Wi-Fi, broadband, etc.) technologies.

Trends of technology adoption in specific sectors, which went on to improve competitiveness, and affect the nature of the market are:

1. **Government:** The Central as well as some state governments have improved their productivity and efficiency through judicious information technology adoption. In the early eighties, NRI telecom czar Sam Pitroda helped the Centre to jumpstart with the Telecom Commission. The latter is mainly responsible for achieving the unbelievable teledensity of 12.73 by April 2006, and connecting the nation's 600 districts with personal computers, landlines and satellite networks through the National Informatics Centre Network (NICNET). The State as well as the Central administrations had the latest demographic and revenue records through the network. States of Madhya Pradesh and Andhra Pradesh installed information kiosks in every district to have a transparent system for land and revenue records, and efficient monitoring of government programmes. Psychologist Prannoy Roy used in the second half of 1979, a powerful ICIM computer to translate huge amount of Election Commission data to correctly predict the phoenix-like return of Mrs. Indira Gandhi to power. He then went on to use the high quality graphics generated by his software firm Stat Art to differentiate his much-appreciated weekly news programme The World This Week, broadcast every Friday over staid Doordarshan from 1998. In the nineties, NDTV used NICNET to get the polled data streaming in to his

headquarters for the latest analysis! He went on to give content support to Star News and then branch off into running his own independent satellite television channel, NDTV.

2. **Retailing:** Retailing is a technology-intensive industry where distribution and information systems can build competitive advantages. Indian retailers can work closely with their vendors to predict consumer demand, shorten lead times, reduce inventory holding and thereby, save cost through two innovative logistics techniques – cross-docking and electronic data interchange. Some of the technology adoptions that greatly enhanced the competitiveness in the industry are:

**Universal Product Code (UPC)** - Popularly called the 'bar code', its universal adoption in 1972 by the manufacturers and retailers changed the power equation in retailing and would similarly benefit Indian retailers. The bar code contains the following information:

- ❖ Product category (say, shampoo)
- ❖ Brand particulars (say, Lux)
- ❖ Variant particulars (say, pink color, and in 250 gm.)
- ❖ Batch number of manufacture
- ❖ Expiry date particulars
- ❖ Price details
- ❖ Manufacturer's details, etc.

The reason for adopting the UPC then was to ease sales registry and bottlenecks in checkout/payment counters in retail stores. By gunning scanner beams on the bar codes, the retailers not only cleared their counters quickly but also were now in possession of a huge amount of data. Before 1972, product manufacturers like Unilever and Procter and Gamble were powerful as they had the brands and were constantly in touch with the consumer through market research initiatives. The brands brought in the customers into the retail stores who could then try other merchandise. The companies drove hard bargains with the retailers for margins and stocking of new unknown brands.

After 1972 it was the retailers who could know with deadly accuracy, especially after integrating the sales data from all its chain stores, which products in which variant formats were moving at which time and where. Still there were two crucial data that the retailers did not possess:

- Who were the customers who bought the merchandise?
- Why did they buy the particular merchandise?

Mega retailers like Wal-Mart got the first information fortuitously through the popular adoption – this time by the customer – of another concept: the credit cards. With every purchase paid by credit or charge cards, the retailers had access to customer data – name, address, occupation, income, family size, educational qualification, etc. They could do brand tracking and analyse the customer's shopping pattern and habits. The second information they got through regular market research and by the development of Customer Satisfaction Index (CSI). This information gave Wal-Mart a decisive competitive advantage and they leveraged this exclusive knowledge to their advantage in inventory management as well as in driving hard negotiations with the vendors. They could drive down the cost of goods purchased and transferred the benefit to the customers by way of lower prices.

After knowing the consumer preferences, Wal-Mart went many steps further. They went in for private label brands (brands owned by Wal-Mart) sourced from their vendors. Today, there is gentle irony in the changed scenario since 1972: Unilever and P&G are the biggest captive vendors of Wal-Mart-owned brands! The power really *had* shifted.

**Notes**

Their frenetic growth and power is entirely due to their technological adoption. Indian retailers are now having detailed knowledge of the market and stocking the merchandise that they want. This information is helping them in their warehousing, shelf-space management, and inventory control and optimum space, merchandise and capital utilization. Like it happened internationally, Hindustan Lever and P&G will shift from adversarial to partnering role, requesting retail data from organized retailers to use it for their marketing programmes. HLL went a step forward by getting into e-retailing through SangamDirect – and an ulterior motive was to get continuous insight into customer psyche and purchase pattern.

- **QRIMS:** Indian retailers can use IT integration as a development tool, like the Quick Response Inventory Management System (QRIMS), which links the stores through computers and satellites to the vendors. Vendors can have the latest data on merchandise movement in the stores, and be saved from excess inventory and stock, preparing their delivery schedules ‘just-in-time’. Neither the Indian retailers nor the vendors need wait for the tedious order requests, processing procedures and consignment-to-consignment negotiations. They can now be partners in a quintessential win-win scenario, assuring each other of long-term relationship contracts and avoiding being narrow minded. In the end, Indian retailers can make the vendors a major stakeholder in their success, and can only be done with the appropriate technology, using it for a decisive competitive advantage.

Wal-Mart is today the world’s *numero uno* company (with a turnover \$245 billion) only due to its superior technology and knowledge management. There are over 1,000 software ‘techies’ in Wal-Mart’s headquarters in Bentonville, Arkansas, doing dedicated work for it. It is able to keep operating expenses below 15 per cent of sales – far below its competitors like K-Mart, by its superior technology which it uses for its supply chain management, customer tracking, inventory control, logistics management, etc. Bar code scanners are used to clock sales, track inventory and shelf movements. There is computer connectivity in terms of Local Area Network (LAN) and Wide Area Network (WAN) between regional warehouses through which merchandise managers make their orders. The warehouse computers are linked to over 200 vendors through satellite, making deliveries in the least possible lead-time. Wal-Mart has been able to peg its shipping cost 50% that of its nearest competitors, giving it a decisive competitive advantage.

Indian retailers are yet to have such collaborative systems with their vendors.

- **Radio Frequency Identification Devices (RFID):** This invention is completely changing the face of retailing and the innovator is Sanjay Sarma, 35, a robotics expert and professor of engineering, AutoID Centre, Massachusetts Institute of Technology, US. The RFID system is based on chips that can be read remotely, with radio frequency via wireless Internet connections. Merchandise is now being tagged with radio frequency ID systems, which are soon going to be replacing bar codes. It can be used to track soaps, fruit juices in tetra packs, shampoo, pickles – all straight from the factory to the warehouse to the shelves of the superstore.

Wal-Mart’s Chief Information Officer, Linda Dillman is spearheading the adoption of Sarma’s innovation in the length and breadth of the retailer’s vast supply chain. She forced the top 100 suppliers of Wal-Mart to adopt RFID tags for all their goods by 2005. Retailers are able to better track inventory, keep shelves always full, and reduce shoplifting, loss and inventory costs for retailers and their vendors. It has become the technology standard for the entire \$2.7 trillion US retailing industry.

Michael Dell of Dell Computers is using RFID tags on parts so that “online orders are transformed quickly into radio signals which instruct Dell’s automatic parts-picking machines to round up the components for each PC.” RFID transmitters beam assembly blueprints to workers and track the shipping of the finished product, enabling Dell

managers to monitor the entire process online. Michael Dell was able to pioneer the concept of 'mass-customization', first through the toll-free telephone order receiving system and then through the Internet. Today, it sells through the net computers and servers worth over \$ 19 billion – when compared to its total sales of \$30 billion. It has removed 120 human hands operations and has 60 process patents. Its entire focus has been to adopt technology, which could process orders, guide its customized manufacturing process, and deliver the computers – all in the shortest possible time. Thus it has been able to do in 24 hours and the model has been the envy of its competitors. It has used technology to fine-tune its supply chain, keep inventory to the minimum and avoid obsolescence—the bane of the industry.

RFID made its debut in India, when Wipro launched an RFID-enabled shop on its Bangalore campus in July, but now Pantaloon Retail will be the first Indian retail chain to experiment with RFID. It has engaged Wipro to run an RFID pilot project and is also talking to Israel-based Check Point Software, which has worked with Metro on a similar project. The pilot project is being implemented at Pantaloon Retail's central warehouse in Tarapur, near Mumbai. It will be limited to just 1,000 tags being attached to a few selected product lines mainly from its in-house textile mills. The pilot project itself will cost the company ₹ 30 lakh but is expected to provide crucial insights on the probable process needed to implement RFID technology across the chain. Whenever a customer buys a product, the retailer can track its movement – and even generate a bill automatically, without the customer going to the cash counter.

However, Pantaloon is implementing RFID technology mainly for managing its supply chain – from vendors to warehouse and then to the shop floor – with carton level tagging. It might take another three years for the technology to evolve in the country, greatly depending on the readiness of their vendors. Wal-Mart has asked its vendors to pick up the entire cost, without any increase in product price. It has set a January 2005 deadline for 100 of its vendors and the rest must supply RFID-enabled products by 2006. The vendors are expected to spend close to \$2 billion on this. In India, each tag costs ₹ 6 and with the chain stocking around 3 lakh SKUs, the entire spend is quite mind-boggling. The economies of scale will come about only when other players also decide to implement RFID. While other retailers like Shoppers' Stop are taking a wait-and-watch approach, IT companies like Patni Computer, Infosys and Wipro are hard-selling the technology.



*Note* RFID tags can be either passive, active or battery assisted passive

Other technological usages in retailing are:

- Customer Relationship Management (CRM) or On-Line Analytical Processing (OLAP) software to run on top of its existing database

This can help companies in more intimate understanding of the customer and his needs. It includes the following customer-facing applications:

1. **Sales Force Automation (SFA):** Initially designed to support salespersons in managing their touch points and to provide them with event calendars about their customers, SFA's meaning expanded to include opportunity management – supporting sales methodologies and interconnection with other functions of the company such as production. SFAs helped a service firm in the following ways:
  - ❖ *Contact Management:* Maintain customer information and contact histories for existing customers. May include point in the sales cycle and in the customer's replenishment cycle.
  - ❖ *Activity Management:* Provide calendar and scheduling for individual sales people

**Notes**

- ❖ *Communication Management:* Communicate via E-mail and fax
  - ❖ *Forecasting:* Assist with future sales goals, targets, and projections
  - ❖ *Opportunity Management:* Manage leads and potential leads for new customers
  - ❖ *Order Management:* Obtain online quotes and transform inquiries into orders
  - ❖ *Document Management:* Develop and retrieve standard and customisable management reports and presentation documents
  - ❖ *Sales Analysis:* Analyse sales data
  - ❖ *Product Configuration:* Assemble alternate product specifications and pricing
  - ❖ *Marketing Encyclopedia:* Provide updated information about products, prices, promotions, as well as soft information about individuals (e.g., influence on buying decisions) and information about competitors
2. **Customer Services (CS):** It is an after sales activity to satisfy customers by resolving internal and external customer problems quickly and effectively. By providing fast and accurate answers to customers, a company can save cost and increase customer loyalty and revenue. Customer services include call centre management, field service management, and help desk management.

**Self Assessment**

Fill in the blanks:

7. Whenever a ..... buys a product, the retailer can track its movement – and even generate a bill automatically, without the customer going to the cash counter.
8. Indian retailers can use IT integration as a development tool, like the ..... Inventory Management System (QRIMS), which links the stores through computers and satellites to the vendors.
9. .... can have the latest data on merchandise movement in the stores, and be saved from excess inventory and stock, preparing their delivery schedules 'just-in-time'.
10. .... is implementing RFID technology mainly for managing its supply chain – from vendors to warehouse and then to the shop floor – with carton level tagging.

**7.3.7 Customer Services Capabilities**

1. **Call Centre Management:**
  - ❖ Provide automated, end-to-end call routing and tracking
  - ❖ Capture customer feedback information for performance measurement, quality control, and product development
2. **Field Service Management:**
  - ❖ Allocate, schedule, and dispatch the right people, with the right parts, at the right time
  - ❖ Log materials, expenses, and time associated with service orders
  - ❖ View customer history
  - ❖ Search for proven solutions

3. **Help Desk Management:**

Notes

- ❖ Solve the problem by searching the existing knowledge base
- ❖ Initiate, modify, and track problem reports
- ❖ Provide updates, patches and new versions

**Dot.coms**

Indian e-retailers can emulate the technology drive of amazon.com to be unique, big with the first-mover's advantage. It has pioneered many Web-based processes and is the holder of the controversial "one-click purchase" process patents. It has five huge barns as warehouses, each costing the non-store bookseller \$ 200 million. These warehouses are connected by satellite to process customer requests. The request-process/order-handling centre sends the requirements by walkie-talkie to the person concerned near the book stacks. The book is put on a conveyor belt with the order details, which then heads for the order-processing centre. If a request has a multiple title order, then they are all collected at the centre and shipped to the customer – at a discount and within 48 hours.

**ERP and SCMs:** Enterprise Resource Systems like SAP and BaAN have given the chance to Indian companies to better plan and utilise their resources – which they were notorious in not doing. Supply Chain Management Systems, like i2 Technologies have enabled companies to better integrate their production processes with their suppliers and have 'just-in-time' advantages.

**Banking**

**ATMs, V-SATs and EDC:** Indian banks can use technology to cut down their personnel costs and yet achieve wider market coverage. Of all the retail banks in India, it was Citibank that first harnessed technology to grow fast, derive higher productivity and cover a wider market base. Citibank, long before others realized its importance, invested in technology - be it in microfilm, microfiche, scanning, data mining, data warehousing, satellite communication systems, etc. It started Citibank Overseas Software Limited (COSL), a financial technology and software development division, entirely for its captive use. It moved its entire card business to Chennai in the early eighties and served its entire customer base through telephones linked via satellite. It was one of the first to make a move towards captive business process outsourcing through eServe. Such technological innovations helped Citi Bank to drastically curtail its personnel costs and yet achieve wider market coverage.

ICICI Bank emulated Citi Bank by strategically deploying technology to dramatically widen reach, to grow at a frenetic pace and increase its visibility. It has over 1800 Automated Teller Machines (ATMs), 5.5 million Internet banking accounts and almost a million mobile banking customers. It has used the V-SAT technology to uplink all its ATMs with its branches. A customer can now operate his account from any ATM in ICICI Bank's dedicated ATM network or through its arrangements with other banks' ATMs. It uses note-counting machines at its branches and saves a lot of valuable time for the bank. Other banks have also followed suit with automatic ledger-posting machines. Likewise, HDFC Bank has quickly adopted net banking and online share transaction systems.

**Migrating customers to alternate and cheaper channels:** HDFC Bank has successfully used technology to migrate almost half of its banking transactions to low-cost channels like ATMs (50 percent), net and mobile banking (10 per cent), and phone banking (5 per cent). Similarly, ICICI Bank has managed to shift most of its transactions from their branches (from 95% two years back to 40% today); 45% transactions have been moved to ATMs while Internet and phone banking constitute the residual 15%. Among foreign banks, HSBC branches account for 25% of transactions while Citibank does only 5–7% of transactions in terms of volume through its

**Notes**

branches. The share of the net is higher at 15% while the lion's share of nearly 80% is shared by telephone and ATMs.

The derived advantages for banks through technology adoption are many:

1. **Cost effective:** It helps keep costs low. The cost per transaction on an ATM is just 30 per cent compared to a branch based transaction. Savings are higher in smaller cities and towns due to lower real estate housing costs for the ATMs. HDFC Bank has been successful in trebling its active net-banking customer base to over 3 lakh. There are over 6.5 lakh transactions performed per month on the net, the bulk of which (85 per cent) are non-financial transactions.
2. **Force multiplier:** Technology can help generate business leads, which can then be followed up by the bank's personnel. An ATM can bring in fresh revenues when credit or debit card customers of other banks transact through it. UTI Bank has been eyeing this business, targeting customers of foreign banks which do not have adequate either branches or off-site ATMs to service a widespread customer base. The bank had earlier entered into an alliance with BNP Paribas (the latter closed its retail operations) and is having liaison with other banks. Non-UTI Bank customers account for 10-12% of transactions at UTI Bank ATMs, which accept both Visa and MasterCard. With over 600 ATMs in 70 cities, UTI Bank's network is the second largest among private Indian banks after ICICI Bank (1100-plus). SBI is already the largest ATM-networked bank; in addition to its over 18,000 manned branches (including the branch network of its seven Associate banks). This gives the Indian banks an enviable reach in India.
3. **"Hub-and-spoke system":** The ATM networks of UTI Bank function on a hub-and-spoke model in which a branch is never 2-3 km away from an ATM in a city like Mumbai, and more than 5 km in smaller cities. They serve as powerful tools for customer acquisition and retention.
4. **Locations:** ICICI Bank has strategically placed its ATMs for maximum benefits. It has chosen petrol pumps, major business districts and corporate campuses like Infosys to selectively target a large number of customers.
5. **Value-addons:** Customers can pay their tax and utility bills and have multilingual facilities. ICICI Bank's ATMs display information in six languages: English, Hindi, Kannada, Tamil, Malayalam and Marathi.
6. **Workload reduction:** Paperwork and the volumes in mass banking overwhelmed good public sector banks like SBI. As a result, they were not only perceived as inefficient but were also not able to give quality time and attention to aspiring middle class and high net worth individuals. ATMs, bar code and Magnetic Ink Character Recognition (MICR) scanners, Automatic Ledger Posting Machines (ALPM), etc. have reduced the workloads in banks in general and Indian banks in particular. In addition, new functionalities are being added.
7. **Cross selling:** The banks are able to get the benefit of cross-selling their different products through their alternate channels. The embedded technology also greatly helped them in this regard. For example, a customer can ask for more information on other products of ICICI Bank on their ATMs. The machines have six options currently: home loans, car loans, credit cards, life insurance, mutual funds and online trading (icicidirect.com). Any information request by a customer on the ATM, say on life insurance, is automatically recorded and the lead is given to appropriate marketing personnel (of ICICI-Prudential) for follow-ups.



*Did u know?* Enterprise Resource Planning systems automate the activity with an integrated software application.



## 7.4 Cost Drivers

Notes

There are basically three types of cost drivers:

**Volume:** The cost driver is based on units of work (e.g., number of orders). The cost of the activity increases as more units are processed.

**Time:** The cost driver is based on the length of time taken to complete the activity. The cost of the activity increases based on the length of time required to complete the activity. It does not matter how many products are produced (e.g., when retooling machines, the cost driver is the length of time required to complete the retooling of machines).

**Charge:** The cost for the entire activity is charged directly to the cost object (e.g. all costs associated with the retooling of machines for a product is charged directly to the end-product).

In general, a charge-type cost driver is used very rarely. The most common drivers are volume and time. The driver used depends on the nature of the activity. The cost of the activity may increase based on the number of units handled or based on the length of time required to complete the activity. It could also be a combination of these two driver types. For example, the time required to test a product may vary based on the product under test and the number of units to be tested. The costs of testing increase as more products are tested. As well, the testing time will vary based on the complexity of the products (e.g., a complex software program takes longer to test a simple software program). Say it takes four hours to test a simple program and ten hours to test a complex program, and all other costs are the same with respect to testing the two types of programs. The cost of testing two simple programs (i.e., 2 programs \* 4 hours/program = 8 hours) is less the cost of testing one complex program (i.e., 1 program \* 10 hours/program = 10 hours).

### 7.4.1 Measure the Cost Drivers

Once the cost drivers have been identified for the various activities, they must be quantified. For the same period that the costs were captured, the count for the activity driver must be determined. For example, if the driver for the Purchasing process is Purchase Orders, determine the number of Purchase Orders processed during the period for which costs have been captured.

Look to existing systems for cost driver measurements. For example, if the purchasing function uses a computer system, it should be fairly easy to determine the number of purchase orders processed in a given period.

## 7.5 Internet Service Design

It lives within ecosystems and strives for successful experiences. It's pretty hard to pin down, but it's increasingly important. So why does service design matter to businesses and brands now more than ever? Here are four reasons:

1. **Digitally-enabled services are becoming ubiquitous:** We've all heard of the Internet of Things, or Ubiquitous Computing right? Both terms refer to the explosion of connectivity in our everyday devices. Everything we own is getting networked, from your TV to your car to your bathroom scale. All that connectivity is cool, but it's just the hardware — those digital features manifest as services, which require user interfaces and design.
2. **Services and products need to exist in ecosystems, and designed and thought in terms of a holistic brand experience:** Cool, so we just design those services like we've always done for sites and apps, right? The tricky thing about products and services these days compared to the websites we built in 2000 is that they need to exist not as isolated experiences, but as


**Notes**

part of a much larger digital ecosystem. An airliner’s kiosk system needs to interact seamlessly with its mobile app, and an in-store digital retail experience should work seamlessly with the iPod shopping app. They are all touch points in an overall customer experience of the brand.

3. **Well designed services are marketing differentiators, a reason people will buy your product:** Nike+ is a reason to buy Nike running shoes. Wiithings is a reason to buy their bathroom scale. Twelforce may or may not be a reason to frequent Best Buy. Digital services are increasingly being added onto the products we used, not as an afterthought or nice to have, but as a core part of the product proposition. They are a reason you’d buy product X over product Y, and for that reason their design becomes business critical.
4. **Poorly designed services can destroy customer satisfaction and recommendation:** When a service is core to your product experience, and you get it wrong, the results are ugly. Ford plunged from 5th to 23rd in the 2011 JD Power & Associates satisfaction survey, with the primary culprit being identified the My Ford Touch in-car telematics system. Ford aren’t just selling a car, they are selling a driving experience. And the service that lived at the heart of that experience wasn’t good enough, resulting in a vocally disgruntled customer base. The service layer has become as important as the product itself.

Summary = Products companies are becoming service companies, and ultimately experience companies

All of which brings us to the last point. There tended to be a quite clear division for many companies between product companies (**like Fiat or Samsung**) and service companies (**like say Geek Squad**). Except now your Fiat comes with EcoDrive, and your Samsung TV comes with an appstore. These companies that are traditionally products companies are now becoming service companies, which require a different mindset and approach, and different skill sets for success. If you get it right, it can be a major market differentiator. And as you can see in the case of Ford, if you get it wrong, it has very big consequences. The ubiquitous computing era is here, it’s up to us to design services and experiences to make the most of it.



*Task* Draw out a list of service companies and identify their marketing functions. Make a descriptive study of their attempts at technology adoption across different stages of time matching the study with the trends in that sector. Try and find the effectiveness of such adoption. Detail your mapping process and the measuring tools, and their effectiveness. Use such data collection techniques as survey, interviews, focus group discussions, etc.

**Self Assessment**

Fill in the blanks:

11. When a service is core to your ..... experience, and you get it wrong, the results are ugly.
12. .... services are increasingly being added onto the products we used, not as an afterthought or nice to have, but as a core part of the product proposition.
13. .... can help generate business leads, which can then be followed up by the bank’s personnel.
14. The cost of the activity increases as more ..... are processed.
15. Indian ..... can emulate the technology drive of amazon.com to be unique, big with the first-mover’s advantage.



Case Study

## Case: SangamDirect – Adopting Technology in e-tailing - II

With the retail sector showing such favorable signs of growth, Hindustan Lever Ltd, decided to start a unique format of retailing service in India; electronic retailing. It began its services under the name of SangamDirect in 2001 and seems to be still going strong. SangamDirect can be described as a direct-to-home shopping service offering goods and services from provisions to home maintenance, from groceries to toiletries, from beauty to health. It began its first service as test marketing in Thane, a suburb of Mumbai and certain specific areas of Navi Mumbai. It was now available in most suburbs of Central, Western and Northern Mumbai.

SangamDirect is a grocery-delivery service to homes with an aim to turning grocery purchasing from a mundane to pleasurable experience. The 24-hour service delivery concept involves selling branded goods at a one per cent discount to maximum retail price (MRP), and unbranded goods at a five per cent discount to existing rates. Sangam Direct set up call centers and a website where consumers can send in their requests for goods and services. To promote this unconventional service, HLL had also launched a community-building programme called 'Thane Sangam' on select cable television channels.



SangamDirect could be described as an online kirana-store – where line is defined as telephone as well as website. It does not have an outlet where customers can come to shop. Instead, all orders must be booked via phone or through its website and the company promises delivery in 24 hours.

The advantages are many. Clients can dial-in at any time or log-on to their website to book an order. HLL has set up a call center where company's agents are trained to provide all assistance to buyers. To help deal with any first time apprehensions of the customer, SangamDirect also sends a customer service agent to their house who will help them set up a shopping service that is fully customized to their individual needs. The website also has a very comprehensive help facility.

Since there are no constraints of shop space, the company is in a position to offer a particularly, big range of over 5,000 household products. The most important point is that these are not just HLL products. Other corporate retailing ventures have all too often turned out to be mere showcases only for the company's range. SangamDirect, however, has an ulterior motive up its sleeve. The customer who orders does it through his telephone, which de facto becomes his Identification number, and HLL/SangamDirect is now in a position to track consumer spending habits as well as family profiling! SangamDirect is definitely a serious retailer, which stocks products from HLL's competitors as well.

These products are categorized into 11 segments like provisions, toiletries, laundries and dish wash, home maintenance, beverages and drinks, chips and so on. HLL has used its national sourcing advantage and the much larger inventory that SangamDirect can keep to procure local or ethnic products from around the country. Thus it can now market to members of that ethnic community settled in that area. So if one wanted that particular sambhar masala, one did not have to trek to the Tamil shops in Matunga – it was just a phone call away at SangamDirect. That's the sort of smart trick, building on the company's strengths and giving SangamDirect a unique advantage, which may just be what starts pulling consumers in.

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Thus SangamDirect is a service which offers customers the experience of shopping from the comfort of their homes. The customers have to order for their monthly groceries and other products over the telephone and their order is delivered at their doorstep at no extra cost. Moreover, most of the products available at SangamDirect are below MRP. There are other offers that are exclusive to SangamDirect. Thus the benefits are passed on to the customers and it results in huge savings from the customers' point of view.

**The process of ordering from SangamDirect:** The customer has to call up the call center. There is a very efficient and trained team, at the service of the customers, ready to take down their order. Here Information Technology has helped the call centre to a great extent. SangamDirect has a system, with the call centre, the warehouse and the dispatch center all well integrated with each other. There is effective and efficient flow of information across all these levels. All the products that are available with SangamDirect are stored in a database, complete with the recent prices and quantity and also the promotions carried out by different companies and SangamDirect exclusive offers as well.

Thus, when a customer calls up the call centre, he/she is given all the information, right from the product quantities available, prices, offers and also the amount of money that the customer saves. The call centre agents have all the knowledge about the product, i.e. the product features, its quality, its uses, etc. Thus they are in a position to inform the customers correctly about the various aspects of the products that are being ordered.

In case of any product not being in stock, the call centre agents are immediately informed about it, so that they can suggest alternative products to the customer. The order is delivered at the customer's house at the time convenient to the customer, free of cost. Thus the customer is put at ease and given the much needed convenience; a convenience both of time and place.

**The processing of the order:** Once the order is confirmed and the customer decides the time of delivery, the order is forwarded to the warehouse department. This department is responsible for getting the order ready for dispatch. This department prepares a list of the items in the product and gives it to a person who does the "shopping". The warehouse is very methodically designed. There are different markings for different racks for easy identification of the items. So the "shopper" moves around the warehouse picking up the items in the list. At the end, an invoice is prepared and the items are packed in totes and then sealed.

**Dispatch operations:** Once the list is given to the "shopper", the orders are sorted according to the area of delivery and by the time of delivery. Once the totes are packed and sealed, they are arranged in the dispatch centre according to the different areas of delivery. The dispatch centre is very well organized, by way of separate markings for different areas of delivery. SangamDirect has an efficient team of delivery vans and drivers at their disposal and also a very efficient team of delivery boys. They are provided with proper training as to how to deal with customers, the different modes of payment, and the different coupons acceptable by SangamDirect, etc. They are regularly evaluated on various parameters like politeness towards the customer, cleanliness, consent to keep the items, the ability to satisfactorily respond to the queries of the customers, etc.

**Delivery operations:** The orders are loaded in the vans according to the knowledge of the drivers about the respective areas. This saves a considerable amount of time required to search for the correct address. Thus the delivery reaches the customer's house on time. The mode of payment is either by cash or credit cards and that too only at the time of delivery.

**Customer Relationship Management Programmes:** SangamDirect has started very effective methods of managing customer relationships. It has created different classifications of customers, depending on the frequency and the amount of their purchases. These customers are given

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further offers and discounts to maintain and increase the customer satisfaction levels.

**Marketing programmes:** SangamDirect has initiated many marketing programmes to generate calls and purchases. There are “Rice Utsavs” to inform the customers about the wide varieties and assortments of merchandise available. Such Utsavs present the customers with an opportunity for the “touch-feel” factor. This is very essential, especially since SangamDirect is an electronic form of retailing. The customers get to see the various products and also there is a facility for the customers to order for their purchases from these Utsavs.

SangamDirect has tie-ups with other retailing and non-retailing organisations. This helps in the SangamDirect brand recall and recognition. There are DSAs which are responsible for promoting the concept door-to-door. The DSA teams are very competitive and professional in their approach. This has benefited SangamDirect immensely by way of making their services accessible to a greater number of customers. There is also a website and an email address. The customers can send their orders through the website and the email address.

SangamDirect has started distributing newsletters to all its customers. The newsletter contains information about the range of products available with SangamDirect, the different schemes, coupons, etc. Then there are inputs from the customers themselves, about certain recipes, cooking tips, etc. There is also a section for the customers to put in their own advertisements regarding certain services of their own, i.e. education classes, creativity courses, cooking courses, requests for learning the same, etc. This has helped in creating a virtual community-center among the customers and the society as a whole. Complaints resolution: In case a customer has any complaints regarding any aspect of SangamDirect operations, be it the quality of the products delivered, incomplete delivery of the order, behaviour of the delivery boy or any service of SangamDirect that the customer is not satisfied with, all these complaints are noted precisely by the call centre agents and the necessary corrective actions are immediately taken. Needless to say, these factors are very necessary for the success of any organisation, more so in the field of retailing.

SangamDirect is really a single point access to all the products essential for any household; right from groceries, food grains to branded products of all the leading companies. This assures right quality and quantity and at the right price for all the products that are ordered for by the customers.

#### **How does SangamDirect effort fit into the world of retailing?**

Indian retailing scenario: Organized retailing has certainly grown in India – it accounts for barely two per cent of the total ₹ 9 lakh crore retailing market here, but is likely to touch 10 per cent by the end of this decade. Organized retailing has grown three-fold from ₹ 5,000 crore in 2000 to ₹ 15,000 crore today, with a potential to expand to ₹ 50,000 crore in 2008. There is enough potential in retailing. So much so that the top 10 cities in the country account for 94 per cent of retail sales, with the top six cities filling the shopping basket with 82 per cent sales. This is likely to go down to 86 per cent and 66 per cent, respectively, by 2005.

From supermarkets and hypermarkets to department stores and convenience stores and one-stop shops, a retailing wave is currently on in the country. And from food to music and apparel to tea and coffee bars, companies of all hues are indulging in retail speak. The various formats currently in use include hyper and supermarkets, convenience stores, department stores and specialty chains. While each of these models gradually morphed from one to another globally, the Indian retail arena is lush, with all the formats running parallel.

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Grocery is the largest segment, picking up nearly 72 per cent of retail consumption. Apparel accounts for nine per cent and consumer durables four per cent.

**Current scenario in retailing:** The key drivers of retail activity are the apparel and F&B sectors. The organized apparel segment is expected to grow at a steady 9.5 per cent per annum over the next 3 years, driven primarily by large domestic brands like Westside, Wills, Lifestyle, Shoppers' Stop, Pantaloons, Ebony and Globus. In addition to this, the organized grocery segment has witnessed significant activity in Southern India. Stores built on the format of Food world and Nilgiris in the south have expanded the boundaries of grocery markets, which have so far been extremely localized.

A notable trend in the market is the development of integrated retail-cum-entertainment centers. An increasing number of retailers are focusing on malls as opposed to stand-alone developments. Several factors determine a retailer's attraction towards a particular mall. A recent survey by Knight Frank India revealed that, for a retailer, the most important parameters in selecting a mall as a potential location are the following:

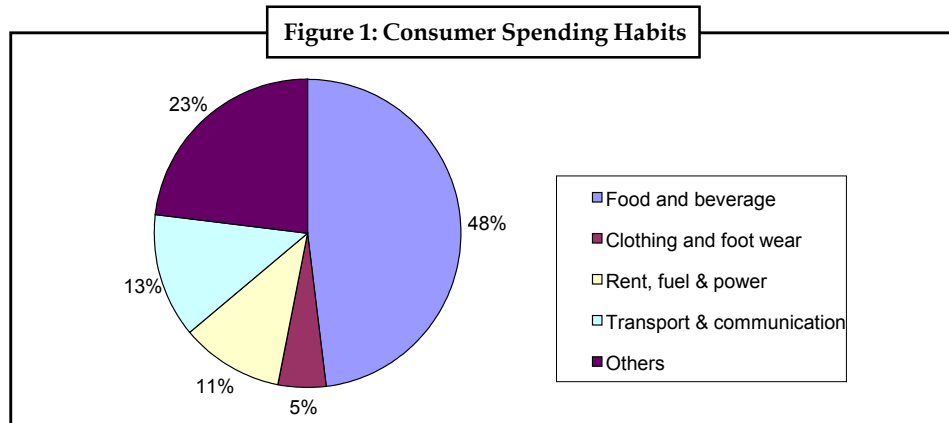
- Consumer demographics
- Developer reputation
- Cost of leasing space
- Quality of other tenants
- Car parking
- Support facilities
- Infrastructure
- Maintenance

Whilst the number of shopping malls has seen a surge in the recent past, the future development is now focused on providing for leisure activities as well. A significant number of multiplexes are being developed as an integral part of retail malls, along with amenities such as food courts and video game parlors. Malls are the focus of retail expansion in India.

Almost all of the large retailers have a presence in the city. Many of these and several new entrants have aggressive plans for expansion into the various micro-markets of Mumbai. Leading the pack of retailers with extensive growth plans are the department store and apparel segments. Lifestyle, Shoppers' Stop, Piramyd, Westside and Pantaloons are actively looking at leasing space in what are perceived to be high traffic shopping destinations. Apparel stores, including Provogue and Weekenders are now targeting malls for expansion after having been present predominantly on the high street. Specialty stores have become a fast growing segment of the retail market. Loft, the shoe store housed in the Lakeside Mall, Powai is now considering expansion. Several furniture stores have mushroomed in various pockets of the city.

Disposable incomes are increasing, the customer is becoming more discerning and real estate prices are falling – these are the three key factors driving the growth of the retail industry in India. Studies indicate that organized retail will grow from a mere 2 per cent of the total retail industry to a significant 20 per cent by the end of the decade. This is not surprising, considering that the organized retail sector is growing at the rate of 8.5 per cent per annum. The size of the organized retail industry has been estimated at ₹ 19,500 crore (\$ 4.24 billion) in the last financial year.

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Population growth, combined with an increase in disposable incomes, has given a boost to the retail industry. The brand-conscious urban population forms the largest segment of demand for the majority of retailers. This segment has grown 3.22 per cent per annum over the past decade, compared to the overall population growth of 2.13 per cent per annum. In the past decade, consumer spending has increased at 11.5 per cent per annum. In addition to the growth in population and consumer spending, spending habits are also changing. Close to 50 per cent of consumer spending is on food & beverage (F&B). This has not gone unnoticed by retailers.

Growth in the retail sector has been thus far focused on Tier I cities only. These cities have mature markets, supported by immense competition, good infrastructure and high consumer awareness. Retailer focus is now broadening to include Tier II cities as well. Operations have been set up in secondary cities, including Nagpur, Indore, Jaipur, Chandigarh, Lucknow and Kochi.

**Question:**

How should SangamDirect further use technology to beat Wal-Mart on its predicted entre?

## 7.6 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- High technology innovations management and R&D – often synonymous – have been extensively studied since the work by Schumpeter.
- At any rate, innovation and R&D has been seen as a central part of product development and manufacturing. Previously, when the industry was dominated by FIPCOs the market had ‘started’ after successful phase III trials and acquired FDA approval.
- However, along with increasing knowledge intensity the industry experienced a massive disintegration through the birth of a vast number of biotechnology start-up companies.
- Disintegration meant that the traditional value chain was replaced and the old integrated R&D process represented a myriad of business opportunities and a myriad of new markets.
- The traditional approach to innovations management had to be upgraded in order to incorporate the customer and the numerous markets which suddenly appeared.
- For the purpose of understanding market needs and expectations and incorporate that into a process we have presented the relationship marketing approach, which has three fundamental elements; acts, episodes, and sequences, which form a relationship.
- For both of our illustrated areas these are highly relevant aggregation levels, however, they are clearly expressed differently.

**Notes**

- However, this requires more research and one area of research would be to determine the different levels of aggregation and their relevance in different high technology sectors, in order to provide more structured managerial guidance.

### **7.7 Keywords**

*Innovation:* It is widely acknowledged that there are different forms of inventive activity with different contextual origins and there has been substantial effort ever since the work by Schumpeter in defining common elements of a wide range of innovations.

*Ability to Innovate:* A firm's ability to innovate has been studied looking at the relationship between firm size and R&D productivity.

*E-Commerce:* doing business on the internet

*Technology:* refers to the means by which a firm transforms inputs (labor, knowledge, capital, raw materials) into outputs (goods, ideas or services).

*Business-to-Consumer (B2C):* It is the direct trade between companies and end consumers. This is the direct selling via the Internet.

*CRS:* Computerised Reservation System

*LIC:* Life Insurance Corporation

### **7.8 Review Questions**

1. What is the role of technology in service marketing?
2. Describe about approaches in technology areas.
3. Explain the different ways in which technology can make marketing of services more effective.
4. How would you go about explaining "information technology paradox" to a banker? Will it also take place in the retailing industry?
5. What can be the rationale for the information technology paradox to take place?
6. Explain the case of a courier or a multi-modal company applying technology for processing customers' total solutions.
7. How cost drivers affect the service industry?
8. Discuss the concept of Internet Service Design.
9. How service delivery can be done in web industry?

### **Answers: Self Assessment**

1. True
2. True
3. True
4. True



5. Synonymous
6. Information and communication technology
7. Customer
8. Quick Response
9. Vendors
10. Pantaloon
11. Product
12. Digital
13. Technology
14. units
15. e-retailers

Notes

## **7.9 Further Readings**



Books

Lovelock, *Services Marketing: People, Technology and Strategy*, Pearson Education, 5th edition, 2001.

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Bhattacharjee, *Services Marketing*, Excel Publishers.

Zeithaml, *Services Marketing*, Tata McGraw-Hill, 3rd edition, 1999.

Rama Mohana Raok, *Services Marketing*, Pearson Education.

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Online links

<http://www.iimb.ernet.in/~mahadev/som.pdf>

[http://www-mmd.eng.cam.ac.uk/ssme/references/johnston\\_ref1\\_cambridgessme07.pdf](http://www-mmd.eng.cam.ac.uk/ssme/references/johnston_ref1_cambridgessme07.pdf)

## **Unit 8: New Service Development and Process Design**

### **CONTENTS**

Objectives

Introduction

8.1 New Service Development

8.2 Process Design

8.3 Innovation

8.4 Design and Tools

8.5 Summary

8.6 Keywords

8.7 Review Questions

8.8 Further Readings

### **Objectives**

After studying this unit, you will be able to:

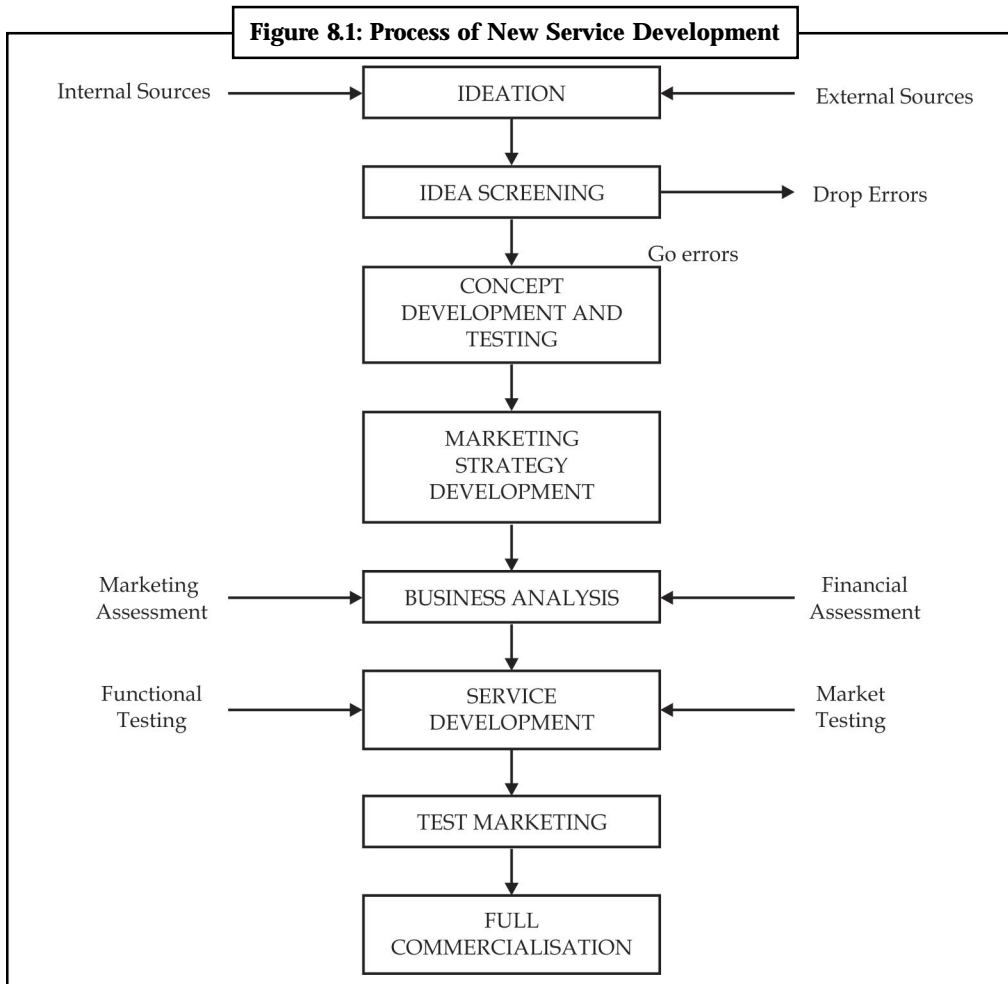
- Elaborate the concept of new service development
- Explain the role of process design
- Discuss the innovation concept
- Describe the various design and tools

### **Introduction**

New product development is one of the major challenges the business community is facing in recent years. A faster offer provides greater mileage to the firms to face competition and win the customers. Under these circumstances a close and constructive mechanism is imminent to the organisations to facilitate new product development on continued basis. Research suggests that products that are designed and introduced by following the steps in a structured planning frame work have a greater likelihood of ultimate success than those not developed within a frame work. Service firms often encounter serious threats from competitions in the front of new product offers. The reasons are that services are intangible, variable and perfect standardisation is not possible and easily capable without many financial and time problems. The above reasons do not allow longer life spans to any service offer in the face of severe competition. Therefore, innovativeness becomes a key for the success of service organisations. Those organisations that have the competency to introduce new offers or improved offers much before the competitor and much before the consumer anticipate such change can lead the market.

### **8.1 New Service Development**

The formal process of new product development in the case of services is detailed in Figure 8.1:



Notes

Let us have a detailed understanding of the eight steps involved in the process of new service development.

### 8.1.1 Idea Generation

Idea generation is the first step in the new service development process. It is very difficult to know when a new idea generates and how it generates. It is an undisputed fact that the scarcest product in the present day competitive world is a good idea. Ideas are applied to an organisation or a situation. Service firms need more and more ideas. Therefore, mechanism need to be developed for the continuous generation of new as they are in direct contact with the customer and involve themselves physically and the chief position as source of ideas. Generally, customers are more expressive in services than in goods because they have direct interaction with the service provider. Relationship marketing contributes a lot in this direction. The other sources include support personnel, competitors, professional organisations, researchers and social organisations. Service firms should design channels to receive ideas from various sources. Proper motivational and reward schemes also need to be designed for the purpose. While collecting the ideas the managers concerned should have open mind and should not be evaluate at this point. They should look for maximum under of ideas from various sources and pooling the ideas should be the only objective. Ideas from various sources and pooling the ideas should be the only objective. Ideas need not be innovative altogether; they can be for minor improvements to the present service offer.

Notes



*Note* Generally, customers are more expressive in services than in goods because they have direct interaction with the service provider. Relationship marketing contributes a lot in this direction.

### 8.1.2 Screening Ideas

A basic minimum criterion shall be developed to check each idea on its suitability to the organisation. An expert team will be constituted by the firm to screen the ideas. There are generally two types of errors possible at this stage. They are 'go' errors and 'drop' errors. If a bad idea is forwarded for further processing, the efforts would be waste and opportunity cost would be more. On the other hand, if a good idea is dropped as waste than opportunity cost would be more. On the other hand, if a good idea is dropped out, perhaps it is lost for the company. Therefore, careful assessment is necessary in screening the ideas.

### 8.1.3 Concept Development and Testing

Concept development means translation of an idea into a descriptive form in concrete terms. The service characteristics such as intangibility and simultaneous production and consumption, create lot of problems at this state. A clearly defined service concept includes specific features and characteristics of service, customer employee interactions and the service design document. The service design document describes the problem addressed by the service, discuss the reasons for offering new service, itemize the service process and its benefits and provide a rationale for purchasing the service. Service Blue printing is the technique popularly used for the concept development of service.

**Service Blue Print:** A service blueprint is a picture or map that portrays accurately the service system. The purpose is to provide a clear picture to different people involved in providing service, who can understand and act accordingly without any confusion or ambiguity. The blueprint visually depicts the service process, the roles of customers and employees and the line of visibility. Also it depicts the systematic arrangement of various service points, the means by which services are performed and also the evidences for service expectations by the customers. For designing a blueprint, decision theory is most useful. The decision theory provides analytical approach to describe processes that required Judgment and choices to provide personalised or customised services.

If we take a bank as an example, the line of interaction where customer acts would be, are counters opened by the branch office – cash receipts, payments, drafts, clearance, receiving counters for withdrawal forms, etc. The on stage contact employees above the line of visibility are the employees assigned the duty of interacting with various customers and also support employees for processing. The backstage contact employees are not on the line of visibility. They manage accounting system and other operational systems that support front line personnel.



*Caution* Having collected ideas in good number, they shall be screened to find out a manageable number for further consideration.

They will have interactions only with the employees. The support processes cover internal services like research, preparation of documents and arrangements for meetings and other activities. Zeithaml and Bitner have developed eight steps for building a service blueprint.

They are:

**Notes**

- Identify the process to be blueprinted
  - ❖ Basic Business Concept
  - ❖ A service (with in a family of services)
  - ❖ A specific service component
- Map the process from the customer point of view
- Draw the line of interaction
- Draw the line of visibility
- Map the process from the customer contract person's point of view distinguishing on-stage from backstage actions.
- Draw the line of internal interaction
- Link customer and contract person activities to need support functions
- Add evidence of service at each customer action step

The new service concept thus developed would be tested by conducting a study of views and opinion of the customers as well as employees on understandability, suitability, convenience and comfort and a feeling of satisfaction to both the parties.

### **8.1.4 Marketing Strategy Development**

The development of marketing strategy involves decision making on such issues like market segmentation, identification and prioritization of target segments, market positioning and the decisions relating to marketing mix elements.

### **8.1.5 Business Analysis**

This step of new service development process involves demand analysis, cost involvement, revenue estimates, projected profit and loss account, payback period and the expected life of the new service.

### **8.1.6 Service Development**

As per the service blueprint, the service environment will be designed with infrastructure, facilities, contact employees, systems and tangibles. This step is an action oriented which involves high expenditure. It is a clear shift from more or less desk work to practical execution of the concept. The success of this step represents the efficiency of the management in transforming a theoretical design into a practical reality.

### **8.1.7 Market Testing**

Now the services are ready for sale. To know, how the service offer really could provide satisfactory experiences, it is necessary to test it among different groups of customers. Based on the early feedback appropriate changes can be made to make the offer more qualitative. The service firms, generally, invite employees' families and selected customers to know their responses on the service. A careful evaluation of the logical process of operational functions is very important at this stage.

Notes

### **8.1.8 Commercialisation**

The new service developed is offered for sale to the market. The major task is to make the service concept aware and understandable to the target customers. Proper review of the process should be continuous to introduce changes, whenever and wherever necessary, to offer quality services from customers' point of view.

#### **Self Assessment**

State True or False:

1. The new service developed is not offered for sale to the market.
2. New product development is one of the major challenges the business community is facing in recent years.
3. Based on the early feedback appropriate changes cannot be made to make the offer more qualitative.
4. The major task is to make the service concept aware and understandable to the target customers.
5. It is a clear shift from more or less desk work to practical execution of the concept.

### **8.2 Process Design**

As discussed in an earlier point, the design of new services encompasses everything ranging from the design of a completely new service to enhancing an existing service by changing some of its service features. Whether the service design issues are large or small, the service delivery process should be designed to meet the specific needs of its customers. The proper approach to service design, then, would identify what the service should entail. This would include:

- (a) where customers should be served
- (b) when they should be served
- (c) who should serve them, and
- (d) how they should be served

Incorporating all of these customer-related issues into the design of both the service delivery process and the overall service system assures that all of the required elements are properly integrated and focused on satisfying the customer.

#### **8.2.1 The Customer's Perspective**

Think about the last time you went to your favorite restaurant. Can you remember all of the different steps that were involved? Did you have trouble finding a parking space? Did you have to wait for a table or did you have a reservation? Was there a place to wait? Was it comfortable or crowded? Did you have to serve yourself while you were there (like going to the salad bar)? Was the wait staff friendly or were they rude? Did they seem knowledgeable about the menu and any specials that may have been offered that night? Was your order correct when you received it and was your food properly prepared? Was the bill correct? Did it appear that you were being rushed through your meal so that another group of customers could be seated? What did you like best about the experience? What things could have been improved?

All of these questions pertain to the restaurant's service delivery process; the process that interacts directly with the customer. How is it designed and aligned to meet the needs of the customer is

critical to the success of the restaurant? The same holds true for every service, whether it is a traditional brick-and-mortar service establishment that we personally visit, like a restaurant or a beauty salon, or a digital service that we access through the Internet like Expedia, Amazon and EBay.

Notes



Caselet

### **Case: Service Design at Disney Continually Focuses on the Customer**

Disney theme parks provide an excellent example of services that have been very thoughtfully designed to the smallest detail. Every part of the service delivery process and its supporting processes has been carefully planned to maximise the customer's experience. From the moment a family first pulls into the parking lot until it leaves at the end of the day, its experiences are mapped out in detail so that each of the elements that comprise Disney's service delivery process is aligned with the overall customer experience.

Disney planners know that visitors to its theme parks want everything to be fun and nothing to be a hassle, so smiling employees are always in sight, ready to help if you need anything. All of the facilities are spotlessly clean and there is enough variety in attractions, food and price levels to suit everyone's tastes. To keep you coming back, Disney regularly introduces new offerings – 19 new rides, facilities or experiences were added at Disneyworld in Florida during the past two years and 29 in the last five! At the same time, Disney continuously improves the elements in its service delivery process, to the delight of customers of all ages. In April 2006, Disney launched the Year of a Million Dreams, during which Disney Cast Members began awarding a million dreams to randomly chosen guests as part of Disney's latest promotion. Among the "dreams" was a one night stay in the royal bedchamber inside Cinderella's Castle in Disneyworld and a similar experience at the Mickey Mouse Penthouse in Disneyland.

Disney's management truly understands that processes matter to customers. Some of those processes take place behind the scenes (food preparation, costume design, employee training, layout and timing of shows) and are part of Disney's overall service system. Other processes take place within view of the customer (characters' interactions with customers, parades, meal service and entertainment shows) and are therefore part of the service delivery process. Disney's management pays careful attention to every step in every process – whether visible to the customer or not – thereby ensuring a strong foundation for successful service delivery, which ultimately translates into high levels of customer satisfaction and repeat business.

**Source:** <http://www.wdwinfo.com/wdwinfo/Million-Dreams.htm>

## **8.3 Innovation**

The service system comprises the service delivery process and all of the supporting processes that are required in the co-creation of value for the customer.

The service system is often the service organisation. However, the service system can be expanded to include suppliers to whom part of the service delivery process has been outsourced and who therefore can affect the customer's experience (this is known as business process outsourcing or BPO).

Notes



*Example:* When you make an online airline reservation at Expedia, how quickly and accurately Delta Airlines confirms your reservation and seat assignments significantly affect your experience and satisfaction with Expedia’s reservation process.

### 8.3.1 Service Delivery Process

This is the end-to-end process that directly interacts with the customer. It consists of all the steps that a customer goes through in the co-creation of value. The service delivery process begins when the customer first interacts with the service organisation or system and ends when the delivery of the desired service is completed and the customer exits the process.

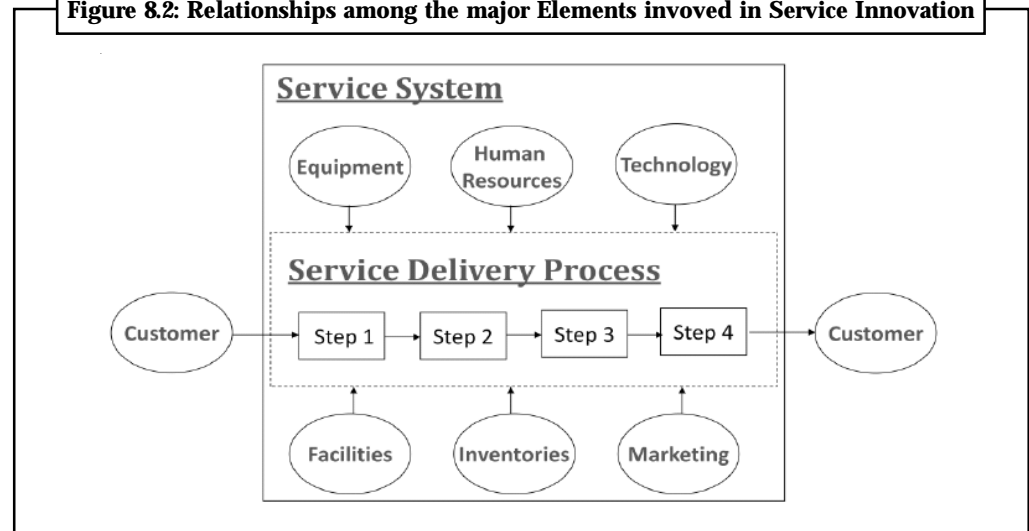


*Did u know?* The service system comprises the service delivery process and all of the supporting processes that are required in the co-creation of value for the customer.

### 8.3.2 Supporting Processes

These consist of all the other processes that together with the service delivery process define the service system. Each supporting process affects the customer’s experience during the delivery of the service. Examples of supporting processes include the human resource management process and the information technology process.

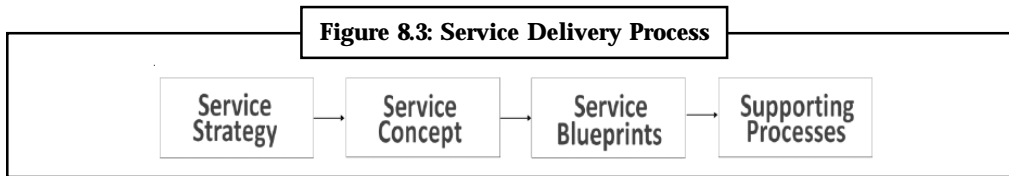
**Figure 8.2: Relationships among the major Elements involved in Service Innovation**



### 8.3.3 Need for Alignment

Aligning goals and resources is critical to the success of every service system or organisation. First the firm must establish a service strategy that defines how value is created for the customer. Next the firm must define the service concept, which describes in detail the customer requirements and how they are going to be satisfied. The third component in the alignment is the design of the service delivery process itself. Here the firm use service blueprinting to identify the specific steps that take place during the interaction between the firm and the customer. Finally, the firm must ensure that the supporting processes are aligned with the delivery process to produce the best possible customer experience and at the same time, use resources wisely. The priority sequence for aligning these elements is shown in Figure 8.3.





## Self Assessment

Fill in the blanks:

6. The ..... approach to service design, then, would identify what the service should entail.
7. .... goals and resources is critical to the success of every service system or organisation.
8. The third component in the alignment is the ..... of the service delivery process itself.
9. The service delivery process begins when the customer first interacts with the service organisation or system and ends when the delivery of the desired service is completed and the..... exits the process.
10. Finally, the firm must ensure that the ..... are aligned with the delivery process to produce the best possible customer experience and at the same time, use resources wisely.

## 8.4 Design and Tools

Because services are intangible they can be difficult to describe, and that difficulty creates a challenge for service designers. Lynn Shostack identified four risks inherent in describing services:

- **Oversimplification:** Shostack writes, “To say that ‘portfolio management’ means ‘buying and selling stocks’ are like describing the space shuttle as ‘something that flies.’” All too often some of the most important steps in the service delivery process are overlooked in the initial design, only to be identified later when customers complain about the process.
- **Incompleteness:** Customers are only able to describe the parts of the service with which they are familiar and with which they have direct contact. The designers must recognise that situations will often occur that were not anticipated, so the design of the process needs to be sufficiently flexible to accommodate them.
- **Subjectivity:** People are biased by their own experiences with services or by personal situations that have nothing to do with the service. For example, if you had a bad day at the office, your dinner that night, even if it is at your favorite restaurant, will most likely not leave you with a positive feeling
- **Biased interpretation:** When people describe services to others additional bias is added in the way they use words, which are open to the interpretation of the listener. For example, what one person means by “polite and responsive” may be very different from what other people think when they hear those same words.

Like any process, the service design process can be improved by using a structured approach that systematically collects information from both customers and service providers to design a service process that meets customer needs, rather than a process that seems good to the manager.

Notes

### 8.4.1 Service Strategy

The first step in designing a successful service delivery process is to develop a specific service strategy by identifying and understanding the specific needs of the customer. Through thoughtful market research, the target market can be identified and its needs understood. The next step is to determine what it is that these customers really expect from a particular type of service. Even within a given industry, customer expectations vary significantly with the type of service and the particular customer needs. For example, customers eating at a quick service restaurant like Wendy's or Panera Bread will not have the same expectations as they will have at a steakhouse like Bugaboo Creek or at a Michelin three star restaurant in Paris like L'Ambroisie.

The challenge with learning about customer needs is significantly magnified for new services. There has been much debate in the literature about whether customers can, in fact, correctly identify what they really want in a new service. Customers may not be able to specifically articulate a new service concept, but they can certainly describe their basic needs and their basic expectations from a service delivery process. For example, a service like Chuck E. Cheese's addresses the needs of parents who want to take their small children to a restaurant to have a fun meal away from home. Chuck E. Cheese's offers safe games and activities with small prizes for "winners" (all children win something) and animatronic music and entertainment. Kids are permitted – and even encouraged – to run around the facility and have fun while their parents enjoy an afternoon or evening away from home. The prizes and animatronics might not have been identified by prospective customers as part of a desired service, but the notion that kids like to move around and play games, that they like to win and be rewarded, and that they are attracted to animals, music, and movement would certainly be recognised by most parents. This chain's service concept clearly incorporates both the needs of the customers and the creativity of the service designer.

Similarly, Apple has responded creatively to meeting customers' needs in the design of its retail stores. Some of its customers know exactly what they're looking for and want to be able to immediately locate their choice and pay for it quickly. Others, however, wish to wander, browse, and play with the products before they make a decision. Apple stores have successfully addressed the needs of both groups of customers in its service design: a carefully organized and well-labeled floor plan; a "genius bar," where customers can get advice about products and help with problems; an efficient checkout system that is available for customers who want efficiency and speed of service; and an airy, open layout design with products displayed on tables to satisfy the needs of those just browsing. The store layout provides clear evidence of the direct link to different customer preferences – and its creativity and innovative feel differentiates Apple stores from those of its competitors.

These design challenges are equally important for online services. Amazon, for example, learned from its customers that free shipping was an important factor in their purchasing decision, so it now offers free shipping with a minimum \$25.00 purchase. Amazon also provides information on other books purchased by people who bought the same book(s) that you have.



*Note* Lynn Shostack identified four risks inherent in describing services.

### 8.4.2 Service Concept

The actual design of the service delivery process begins with the service concept, which provides the link between the service strategy and the service delivery process. The service concept describes in detail exactly what the customers' requirements are, in term of how they perceive

value, and how they are to be satisfied. The “what” focuses on identifying the specific needs of the target customers; the “how” focuses on establishing the organisation’s competitive priorities that will allow it to meet those customer requirements in the delivery of the service. The service concept encompasses four elements:

Notes

- the service operation – the specific manner in which the service is delivered
- the service experience – the customer’s direct experience with the service
- the service outcome – the benefits and results for the customer receiving the service
- the value of the service – the benefit that customers perceive from the service in comparison to the cost of that service

In defining the service concept, management must also be attuned to the skills, qualifications and interests of the workforce. For example, nurse practitioners are able to perform physical examinations and treat medical problems that in the past could only be done by a physician. Using nurse practitioners to deliver care achieves two workforce goals: providing good care for patients and freeing physicians to concentrate on the more complicated cases that may be more interesting to them and that use their skill set more efficiently. Using nurse practitioners to provide care formerly provided only by physicians can also reduce the total cost of providing care.

### 8.4.3 Service Blueprints

To facilitate maximum satisfaction to the customers, more inputs were added to the service delivery. Service evolved from very simple steps to complex processes, and there arose a need for the marketer to get a ‘bird’s eye view’ of the whole process. Blueprinting is flowcharting of a service operation. This methodology was devised by Lyn Shostack in 1984, to help out new service firms in mapping the sequences before the beginning of service delivery or any encounter. This would help the service manager in identifying areas of potential failures, and weak service delivery points — and identify solutions to overcome them.

This would prevent the manager from learning by costly trial and error. It (blueprinting) also enables marketing managers to understand the parts of the operating system that are visible to the consumer and hence parts of the servuction system.



*Did u know?* Blueprint maps the entire service delivery process.

In the servuction system, it is very difficult to identify components of an individual firm. Worse, firms underestimate the sensitivity of points of contact.



*Example:* Many banks, schools, travel agencies fail to understand the importance of the first enquiry telephone call. If the telephone rings for too long, without any response, the potential customer has already formed an opinion of an uncaring organisation.

If the first encounter itself is not pleasant, the customer is not going to come back. Service firms are now starting to realise the importance of the first call and its potential for generating revenues. They are setting up ‘24 × 7 × 365’ call centers to be manned by efficient and alert call handlers. The providers are adequately enabled by training, and computer facilities for all enquiry data access and customer and product details. The service providers are trained to pick up the phone on the first ring.

**Notes**

Service flowcharts allow managers to better understand servuction processes. Designing the process becomes the key to product design. In the design stage, it is ensured that the visible part of operations is supported by invisible processes. Flowcharts seek to identify the following:

- The time it takes to move from one process to another;
- The costs involved with each process step;
- The amount of inventory buildup at each process step;
- The bottlenecks in the system

A customer blueprint has three core elements:

- Identification of all those functions that is essential to deliver a service along with the appropriate personnel with requisite responsibility, authority and accountability.
- The relationships amongst different functions of service components are explained by graphics and charts. The relationship is based on time and sequence with each other. For a hotel, the sequence of housekeeping in relation to reception and registration has to be elaborated with a specific time interval.
- Setting up of standards for each function with tolerance levels and variance from standards. These tolerances for variance should not adversely affect the service quality adversely.

**Benefits of Blueprinting**

The objective of blueprinting is to show how information, assets and customers are processed. To put all of them in a blueprint is to imply that they are elements of uncertainty.

The following are the benefits of blueprinting a service process:

- Through blueprinting, marketing and operations personnel are able to communicate with each other on paper before they do so in real time.
- It provides a check on logical flow of the whole process.
- Bottlenecks represent points in a system where the consumer waits the longest. This identification would help the service manager understand the reasons for the delay and come out with solutions.
- Balanced Production Line: This implies that process times and inventories of all steps are the same. If not, the consumer never waits for the next process. This implies for the service manager that there will be incomplete service experience.
- It is an effective tool for managers to recognise the benefits of a changing system to process consumers more effectively.
- It helps the marketer to set target times initially based on consumers' expected level of service.

**8.4.4 Supporting Processes**

The supporting processes are all of the different elements in the service delivery system that affect the service delivery process. These include:

- (a) Technology (which are the right ones and how does the customer interact with them?),
- (b) Human resources (how many employees do we need and what are the skill levels required?),

- (c) Inventories (how much inventory do we need and where do we need it?),
- (d) Equipment (what types of equipment are needed and how does the customer interact with it?),
- (e) Facilities (how big should they be and what décor package should they have?), and
- (f) Marketing (who is our target market and how do we create value for them?)

Notes



*Task* Service organisations aim to deliver services through direct distribution. Elaborate.

## Self Assessment

Fill in the blanks:

11. The objective of ..... is to show how information, assets and customers are processed.
12. If the first ..... itself is not pleasant, the customer is not going to come back.
13. Service firms are now starting to realise the ..... of the first call and its potential for generating revenues.
14. Service flowcharts allow managers to better understand ..... processes.
15. .... the process becomes the key to product design.



*Case Study*

## Case: Building Power Brands in Services

**P**epsi vs. Coke, Rin vs. Tide, Nokia vs. Samsung, LG vs. Whirlpool, Ford Ikon vs. Hyundai Accent... building perceptual differences is the name of the game in brand building. The stories of brands battling it out for consumer share of mind are legendary and generations of marketers have grown up on these. Product features combined with advertising-led image are the fundamental tools that build power brands in products, even in this internet age.

Jet vs. Kingfisher, Spice Jet vs. Go Air, Barista vs. Café Coffee Day, Pizza Hut vs. McDonalds, Lifestyle vs. Shopper's Stop, LIC vs. ICICI, Airtel vs. Hutch (Vodafone)... there is another set of brands that are also battling it out for consumer share of wallet and share of heart. Some of these service brands are battling it out on experience while others are focusing on advertising image.

A more interesting question, however, is the relative power of the product brands vis-à-vis the service brands. In Interbrand's 2007 ranking of global brands by brand value, in the top 20 list there are 12 product brands and seven services brands; and in the top 50 list there are 36 product brands and 21 services brands. While services businesses contribute way more to the global GDP, when it comes to brand value, product brands significantly outperform services brands. Interbrand has not yet brought out a list of India's top brands by value. But, if they did, one wonders whether the service brands would have a place close to the product brands or would they be far behind?

*Contd...*

**Notes**

This is not an academic or rhetorical question. With India's economy rapidly transforming itself to a services-led one and the billions of rupees of investment intended for the new sectors (financial services, organised retail, media, entertainment and lifestyle), the imperative to build power brands in services is strong. However, this begs the question whether service brands should be built the same way as product brands. If not, then what are the differences between brand-building in products and in services?

A brand is the sum of tangible and intangible values and associations that differentiate it from other available offerings in the market. Products are made in the factory but brands are made in the minds of consumers.

The task of product branding is to build intangible values and associations around the tangible product in order to differentiate it from physically identical products that are available. Thus, a Nokia-branded cell phone suggests something different to a buyer and owner than a Samsung-branded cell phone, even if the quality level and feature set of the two phones are identical. Or detergent powder branded Tide vs. the same powder branded Wheel signal powerful perceptual differences. Emotional benefits, sensory cues and brand personality leveraged in advertising are powerful ways to add layers of emotional meaning and intangible values to the basic product and differentiate it.

Product branding is easier than service branding because it is easier to achieve congruence between advertising message and product experience.

Since advertising claims are derived from the product itself and product quality is not variable, what consumers expect from the product based on its advertising is what they will experience when they buy the product. This congruence means that it is far easier for product brands to build consumer trust and confidence, the foundation of branding.

On the other hand, services are intangible. They are experienced only at the various points of delivery, in real time, as they are being delivered. There is also significant variability in service delivery that a customer experiences even from the same service provider at various points in time. Perceptions of service differentials are built more through actual experience than through advertising. Hence the task of branding services is not to add more intangibility through advertising emotional benefits and brand personality.

On the other hand, the critical task of services branding is to bring tangibility to the intangible. It is to create markers at each point of service delivery that highlight the brand differentiators. These markers when noted remembered and talked about by consumers build perceptual differences between service brands. Thus, the task of service branding is the very opposite of product branding.

In the Kingfisher vs. Jet instance, the King of Good Times brand concept of Kingfisher has been translated into a number of tangible differentiators at all stages of service delivery. From referring to passengers as guests to greeting passengers upon entry to the airport and carrying their luggage, from the glamorous red uniforms of the stewardesses to the in-flight entertainment, there are markers to be noted, remembered and discussed.

There is far greater variability in service delivery creating mismatch between advertising claims and actual service experience. This leads a number of service brands to focus on broad emotional theme-led communication which doesn't make any specific claims related to service quality. As with products, the expectation is that such advertising will build salience and affinity for the service brand, but the ROI of such investment for a service brand will certainly be far lower than for a product brand.

While advertising is relevant and can be helpful for service brands, there are many powerful services brands that have been built with little or no investment in advertising. Starbucks

*Contd...*

and Google immediately come to mind. This is because, service brands are best built bottom up – leveraging experiential differentiators rather than top down, via advertising campaigns.

**Question:**

Why is service branding so important these days?

**Notes**

*Sources:* By H. Shivakumar from thehindubusinessline.com

**8.5 Summary**

This unit attempts to give an overview of the functions in as simple manner as possible.

- The fourth element of the marketing mix, namely, 'place', involves various efforts made by the service organisations to make the services accessible and available to the customers.
- Service location plays an important role in service delivery. Further, it conveys the service quality provided by the service provider, and stamps an image of the service company in the customer's mind.
- In case of direct distribution where service personnel are also involved in the service delivery, the behaviour of service personnel towards with customers also creates an image of the service provider in the customer's mind.
- Service organisations aim to deliver services through direct distribution, where a service provider visits the customer or a customer visits a service provider.
- When service providers cannot deliver services through direct distribution, they opt for various forms of intermediaries.
- Franchisees, agents and brokers, and electronic channels are the main types of distribution channels of a service provider.
- A franchisee on the other hand is benefited by gaining established business processes and a brand name, and by the minimising of risks involved in starting an independent business.
- Agents deal with the service principal on a continuous basis, unlike brokers. Selling agents, purchasing agents, and facilitating agents are the three types of agents.
- A service principal benefits by choosing these intermediaries, because of reduced costs, having access to the special skills and knowledge of agents and brokers, having a large representation, an enhanced knowledge of local markets, and being able to serve according to the choice of customers.
- The challenges include reduced control on pricing and in other marketing areas; and marketing of various service providers' offers by these agents and brokers.

**8.6 Keywords**

**Service Blue Print:** A picture or map that portrays accurately the service system.

**Exclusive Distribution:** Specially selected resellers or authorized dealers to sell the 'product'.

**Core Product:** The basic feature of a product, the main reason for consumption

**Drop Error:** Not choosing a potentially good idea

**Formal Product:** Extra features to attract customers like color, style, etc.

**Go Error:** Going ahead with a not so good idea

**Concept Development:** It means translation of an idea into a descriptive form in concrete terms.

Notes

**8.7 Review Questions**

1. Write the development process for development of new service.
2. Explain the new service development process of a tariff plan at a mobile network provider.
3. “Offer can be a good or a service or a combination of both”. Explain the statement with examples.
4. Consider any one service firm in the banking industry and discuss its entire product range.
5. “It is important for the service marketer to study the varying patterns of sales growth over the lifetime of the offer”. Why? Explain in context with any service industry of your choice.
6. What should a service firm do to avoid fail points? Explain the process.
7. Discuss the concept of designing innovation process.
8. What is the importance of service blueprint in service innovation process?
9. Define the following terms:
  - (a) Service concept
  - (b) Service strategy
10. Elaborate the supporting processes of service innovation process.

**Answers: Self Assessment**

1. False
2. True
3. False
4. True
5. True
6. proper
7. Aligning
8. design
9. customer
10. supporting processes
11. Blueprinting
12. encounter
13. importance
14. servuction
15. Designing



## **8.8 Further Readings**

Notes



Books

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Rampal and Gupta, *Services Marketing*, Sultan Chand.

Bhattacharjee, *Services Marketing*, Excel Publishers.

Zeithaml, *Services Marketing*, Tata McGraw-Hill, 3rd edition, 1999.

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Govind Apte, *Services Marketing*, Oxford Univ. Press.



Online links

[www.wpp.com/wpp/marketing/branding](http://www.wpp.com/wpp/marketing/branding)

[www.knowthis.com/...products/product-development-steps](http://www.knowthis.com/...products/product-development-steps)

[www.best-management-practice.com/.../Service\\_Operation](http://www.best-management-practice.com/.../Service_Operation)

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## Unit 9: The Service Encounter

### CONTENTS

Objectives

Introduction

9.1 The Service Encounter

9.2 Service Experiences

9.3 Creation and Evaluation

9.4 Summary

9.5 Keywords

9.6 Review Questions

9.7 Further Readings

### Objectives

After studying this unit, you will be able to:

- Explain the concept of service encounter
- Discuss the type of service encounter
- Describe the concept of service experiences
- Elaborate the model of service encounters creation and evaluation

### Introduction

The heart of a service is the encounter between the server and the customer. It is here where emotions meet economics in real time and where most people judge the quality of service. As currently conceived, service science treats customer satisfaction with an encounter predominantly as a function of engineering measures of throughput and output quality. Thus if a service is performed efficiently and process output variability is low, it is assumed that the service process has been optimised. Our view is that this misses critical psychological variables that lie at the subconscious level, and which, if understood by management could be managed in such a way as to enhance customer satisfaction.

### 9.1 The Service Encounter

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.

Customer perception of service quality is primarily influenced by the service encounter. A customer estimates the quality of service throughout his/her interaction with a service provider. For example, a bank customer’s service encounter begins when he approaches the bank officials with queries, and is influenced by aspects such as the time taken to meet the senior officer, or to deposit or withdraw cash, the courtesy of the bank officials and so on. During these interactions, a customer would assess the quality of service offered by the service provider. Every incident in the service encounter sums up the customer’s satisfaction and his intention to repeat business with the service provider.

For example, if a person who visits an insurance company for settlement of his claim is not received properly by the employees of the company, he may not like to take any more insurance coverage from the company. However, in a series of service encounters, any encounter can be a critical encounter and will have an effect on the customer's satisfaction or dissatisfaction.

Often, customers evaluate a service encounter on the basis of the amount of care and concern shown by the employees of the service company during the transaction. The speed at which employees respond to customer problems, has a direct impact on customer satisfaction. Further, there is an increase in customer satisfaction if employees of the service company show flexibility in service delivery.

## Notes



*Note* Generally, researchers believe that the first encounter can be critical in a transaction. If a customer is not satisfied in the first encounter, he may never return to do business with that particular service provider.

### 9.1.1 Types of Service Encounters

There are three types of service encounters:

- (i) Remote encounters
- (ii) Phone encounters
- (iii) Face-to-face encounters

These are explained below:

1. **Remote Encounters:** Remote encounters do not involve any direct human contact. Examples include ATM machines, telephone answering machines, voice mail service, automated mail order service, and obtaining billing information on an automated service/line. Customers can estimate the quality of a remote encounter with the help of tangible clues of the service (for example, the air-conditioning and piped music being played in the ATM enclosure or the length of the queue outside it) and the quality of technical processes and systems. Service providers should ensure that the quality of these systems is maintained consistently to avoid the reputation of the company from being adversely affected. For example, a lot of people book flight tickets on internet on websites like Cleartrip.com and Makemytrip.com. These companies should ensure that the process is not complicated and the process takes lesser time. As the customers have to make inputs individually, proper instructions should be there to help them. The same goes for internet banking and E-commerce websites.
2. **Phone Encounters:** Over the years, the use of telecommunications has increased significantly. Companies have started offering telephonic services like customer inquiry, registration of complaints, taking orders, and reserving tickets. Service companies like utilities, insurance, telecommunications, and banking are using telecommunication facilities to provide service to customers. The service quality in such encounters can be estimated on the basis of variables like employee knowledge, tone of voice, and his efficiency or effectiveness in providing the service.
3. **Face-to-face Encounters:** Face-to-face encounters involve direct human contact between a service provider and a customer. These types of encounters occur in places like restaurants, banks and grocery stores. It is quite difficult to evaluate the quality of service in these encounters as it involves assessment of both verbal and non-verbal behaviour. Further, in face-to-face encounters, customers play a role in the creation of quality service for

**Notes**

themselves through their interactions with the employees of a service provider. Here comes in the concept of boundary spanners. Boundary spanners are organisational members who link their organisation with the external environment. Boundary spanning primarily concerns the exchange of information. A boundary spanner is further defined as one who attempts to influence external environmental elements and processes. Thus, such people should be careful of delivering the right image of their organisation to the external customers. In service encounters, first impressions matter a lot. The saying, “first impression is the last impression”, fits near perfectly on service firms. These firms should make sure that they give the best service on the first encounter itself to ensure repeat visits by the customers.

**Self Assessment**

State True or False:

1. A bank official fills in all your loan documents without any mistake. This shows that he is reliable.
2. You wish that you get a free head massage with a haircut. This is your desired service expectation.
3. Your attitude towards the service provider’s facility becomes a part of enduring service intensifiers.
4. When the service provider exceeds customer expectations, it is the stage of customer delight.
5. The ability of the service provider to handle difficult situations effectively is called adaptability.

**9.1.2 Satisfaction or Dissatisfaction in Service Encounters**

Evaluation of the quality of a service encounter will result in either customer satisfaction or dissatisfaction. Some of the factors that affect customer satisfaction/dissatisfaction and influence a customer’s perception about the service are discussed below.

**Recovery**

Recovery is a situation when a service failure has occurred and includes how well the employees of the service provider respond to the situation. Examples of service failure may include flight delays, failure to obtain a room in a hotel despite making the reservation in advance, and improper service in a restaurant. Customers too know that it is not always possible to get perfect service. However, it depends on a service provider how he responds and satisfies his customer during service failures.

Service providers should listen to their Customers patiently and find out the problem at hand, clearly without any misunderstandings. Further, a service provider should accept his failure, apologize for it and assure the customer of his ability to correct the mistake.

Service providers should also explain to customers how they are going to solve the problem and offer them additional benefits to satisfy them. Such measures reinforce the trust and confidence of customers in a service provider and make them form a favorable opinion of the service.



**Caution** Service providers should listen to their Customers patiently and find out the problem at hand, clearly without any misunderstandings. Further, a service provider should accept his failure, apologise for it and assure the customer of his ability to correct the mistake.

### Adaptability

Adaptability is a service provider's ability to deal with the special requests or needs of his customers. A flexible service delivery system will help the employees of the service organisation to manage these types of requests.



**Example:** Examples of adaptability include providing overdrafts on bank accounts, adjusting course schedules as per students' needs, offering special diet to patients on a flight journey, etc. Customers assess quality of service in terms of flexibility of the service delivery system and that of the employees of a service provider in delivering the service. Such flexibility influences customers to have a favourable perception of the service.

### Spontaneity

Spontaneity is the unsought or voluntary action of employees in delivering a service. Examples of spontaneity include responding quickly to emergencies, and voluntarily bending rules to accommodate the special needs of a customer. Voluntary behaviour of employees to help customers will increase customer satisfaction. On the other hand, customers are dissatisfied if service employees ignore them, show discrimination, or behave rudely with them. Spontaneity of a service provider gives rise to a favorable perception about his service.

### Coping

Coping is the process of how employees manage problem customers and situations effectively. Examples of coping situations include having to pacify agitated and disturbed customers and handling their unreasonable demands. Such situations may arise when customers themselves are responsible for their dissatisfaction and fail to cooperate with the service provider and with other customers, law, or industry regulations. Employees find it difficult to please customers in such situations. In such situations, the service firm should show empathy. Firms should tell the customers that they identify with their feelings and care about them.

### 9.1.3 Service Evidence

Service evidence is another factor that influences customers' perception about a service. The intangibility characteristic of services makes customers look for evidences of the service in every interaction with the service provider. Therefore, service providers must manage even the minute tangible clues associated with their service, as customers will have certain perceptions about the evidence of the service on the basis of these clues. If a service provider fails to manage the service evidence, then there is a possibility that he may unintentionally convey the wrong message to his customers, which will have a negative effect on customer perceptions.

**Service personnel:** They play an important role in defining the quality of a service encounter in the mind of the customers. The ability of the personnel to be enthusiastic, friendly, and spontaneous will make the service experience a pleasant one for customers. For example, fast-food restaurants such as McDonald's make their service tangible, by hiring people who are friendly and have a pleasing appearance, to serve customers.

**Notes**

The pleasing and friendly behaviour of these personnel in their interactions with customers enhances customer perceptions of service quality and results in customer satisfaction.



*Example:* In the case of McDonald's, the uniform color scheme, the environment, the graphics, dress code of the personnel, and the ubiquitous and familiar golden arches help to make the service element tangible. Another prominent example of a company, which makes service tangible through its personnel, is that of Walt Disney World. The theme park company enforces strict personal grooming standards for all its employees, known as 'cast members'. This helps the company maintain a uniformly pleasant appearance among all its service personnel and give tangibility to the service.

**Process of service delivery:** It involves various steps in the process of delivering a service, and the flow of operational activities. The service process is also evaluated on the basis of the number of flexible or standard policies, and the technological or human modes involved in delivering the service. Processes have been made simpler and flexible with the help of advanced technology. This helps customers have a favourable perception of the service.

**Physical environment:** It is the third type of service evidence that creates an impact on customer perceptions. The physical environment consists of the ambience offered by a service provider, and the design of the interiors or exteriors of the service facility. For example, a couple who want to dine at a restaurant that offers a quiet and serene ambience, would avoid going to a crowded restaurant as they perceive that the restaurant is always noisy due to the large number of people it caters to. The design of the interiors has the capability to give rise to a positive perception about the service. Also people these days like going to malls as they provide a perfect ambience for shopping (and window shopping). The malls are fully air-conditioned with mild aroma filling in the air, sometimes good music too. They are properly lit, spacious and clean. Malls also have proper signages to direct the customer. Overall, they provide a nice shopping experience.

Service evidence supports the marketing strategy of a service organisation by shaping the first impression of customers, managing their trust in the service provider, facilitating quality service, providing a sensory stimulation to customers, changing the image of the service organisation, and instilling the service philosophy in the employees of the service provider.



*Did u know?* The intangibility of services, marketing them becomes a particular challenging and yet extremely important task.

**Shaping the first impression of the customer:** A customer who does not have any information about a service will look for tangible clues to assess the quality of the service. Customers believe in what they see and form an opinion about the service organisation and the service on the basis of what they see. Further, to many people, the first impression is always the best impression. Therefore, a service organisation should try to use the first impression of customers to communicate its service commitment, competence and service customization ability. For example, a person who plans to go on a vacation estimates the various tourist packages available but the tangible clues he observes at the service office play a great role in influencing his decision. The tangible clues can be in the form of physical surroundings of the service facility or the display of certificates, plaques and trophies awarded for superior service quality, which help convey the commitment of the service firm to superior service quality.

**Managing the trust of the customer:** Companies try to win the trust and confidence of their customers in order to retain existing customers and attract new ones. Marketing of services is

based on trust, as customers have to purchase a service even before experiencing it. A popular method of managing trust is through the money back guarantee. Under this scheme, the firm promises to refund the customer's money if he is not satisfied with the service delivery. For example, BlueDart promises to refund money, if customer's parcel is not delivered at the right destination in stipulated time. In addition to increasing customer involvement in the service delivery, this also enhances the trust of the customer in the service quality. Many restaurants set up a glass pane separating the kitchen area from the service area. This allows customers to view how their food is being prepared in the kitchen. A common practice in several 5-star hotels is that when a customer orders for delicacies like crabs, the chef displays a live crab to the customer to obtain his approval before cooking it.

**Facilitating quality service:** A customer's perceptions of service quality are shaped by a firm's ability to manage the tangible clues of its service. Often, customers form opinions about the quality of service by the way the service is delivered or the processes involved in the service delivery. Firms can enhance the value of their service by trying to attain perfection in the basic aspects of the service like orderliness, customer-friendliness, and cleanliness. In addition, firms should create evidence that appeals to the target market. For example, while marketing the movie 'Harry Potter', the distributors of the film also sold spectacles and toys of the kind used by the hero in the film to attract kids to the movie. Thus, the distributors were selling not just the movie, but the entire experience associated with it.

**Providing a sensory stimulation to customers:** Marketing of services is made easier by attaching an entertainment or fun factor to it. By doing so, a service provider stimulates the senses of customers and makes them realise the difference from other service providers. For example, a tourist destination that has an amusement park, bungee jumping, skiing, movie theatre, and trekking facilities will highlight the fun factor of the place and will be more attractive to most tourists than a tourist destination that is located on a hill with no such facilities.

**Changing the image of service organisations:** An organisation that aims to change its image should give importance to managing the evidence. Changing the current image in the minds of customers and superimposing it with a new image is a difficult and challenging task for the service organisation. For example, when McDonald's entered the Indian market, it easily succeeded in capturing the kids' and teens' market. However, to give itself an image that it serves the entire family and not just kids and teens, it launched a series of advertisements showing elderly couples eating at the restaurant and sharing tender moments along with delicious food, families celebrating birthdays at the restaurant, and so on. This strategy by the food chain helped change its image from that catering to the kids' and teens' market to being a complete family destination.

**Instilling the service philosophy in the employees of the service provider:** A service provider, while training his employees, should clearly communicate his organisation's service philosophy to them. The management can also instill the service culture in its employees through tangible evidence, which help reinforce the company's service philosophy in the minds of the employees as well as communicate the same to customers.



*Example:* Theme parks and several toy stores have service personnel dressed up as cartoon characters to convey the fun element and create a lively and buoyant mood in the other service personnel who will in turn be able to replicate the same while serving customers. Tangible clues of the service also convey the care and concern of a service organisation towards its employees.

Notes



*Example:* The ambience created in an advertising firm can help in stimulating the creativity of its employees as well as in conveying the right image to its customers.

### 9.1.4 Image

A customer's perception of the service quality is also dependent on the image of a service organisation in the mind of the customer. Organizational image is the customer's perception about an organisation and this may be either at the local level or at the corporate level. A customer who has a positive image about a company is likely to ignore some instances of poor service. However, repeated bad experiences will damage the image of the company in the eyes of the customer. In contrast to this, if the customer has a negative image of the service organisation and if the organisation fails to provide proper service, it will further add to the negative image of the organisation in the mind of the customer and result in dissatisfaction.



*Note* A service encounter is a period of time during which customer interact directly with a service.

### 9.1.5 Price

The price of a service has an impact on customer perception of the service. The price of a service influences customer perceptions of value, quality, and satisfaction. Due to the intangible nature of services, customers often assume price as an indicator of quality of service. If a service organisation prices its service low, customers may doubt its quality. On the other hand, customers have expectations of high quality if a service is priced high. Customers may also assess the value of a service in relation to its price after consuming the service.

### Self Assessment

Fill in the blanks:

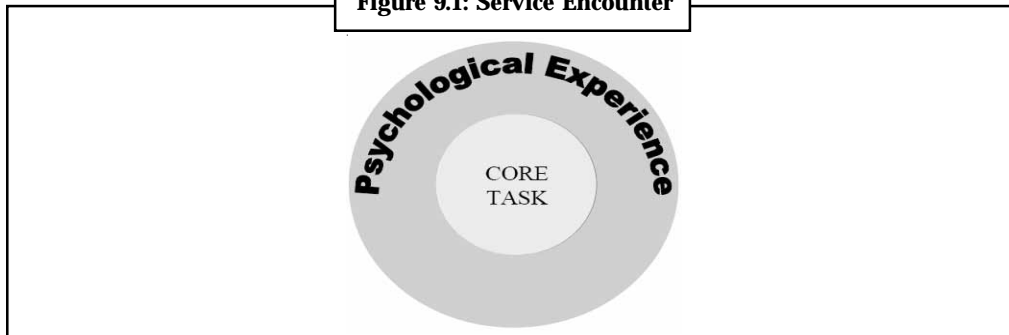
6. You enter a retail store and an on floor executive greets and assists you. This relates to the ..... dimension.
7. The stage above your minimum level of expectation but below your desired expectation is .....
8. You are very hungry and want to eat pizza. This is a ..... that may affect your adequate service expectation.
9. The employee behaviour, the ambience, etc. are ..... service promises.
10. The service availed from railway enquiry machines are ..... encounters.

## 9.2 Service Experiences

Figure 9.1 illustrates our conception of the service encounter as a core task surrounded by the customer's psychological experience during the transaction. Over the past five years we have engaged in an extensive review of the behavioural literature to see what if any concepts and research findings seem promising to apply to service encounters. We contend that while the impact of psychology is no doubt highest in face-to-face and phone interactions, many of the concepts and research findings are very applicable to internet and email interactions as well.



Figure 9.1: Service Encounter



Notes

Though a complete listing of articles is beyond the scope of this paper, the work of Daniel Khaneman and his colleagues provided the initial source of our research. In Chase and Dasu we presented some initial applications, and in the process of developing these ideas for a book, the following categories were determined to be useful enough, extensive enough, and cohesive enough to stand as separate chapters:

- Understanding emotions
- Sequence effects
- Duration effects
- Shaping attributions

### 9.2.1 Understanding Emotions

Emotions are both an input and an output of an encounter. Creating a good experience requires understanding what triggers different types of positive and negative emotions. This allows managers at an aggregate level to develop an emotional platform and at a tactical or process level to identify stages of the systems that are likely to engender strong emotions and to proactively manage them. A useful way of classifying emotional responses is through appraisal theory which specifies the conditions that result in different emotions as a result of change from a neutral emotional state. According to this theory, the type of emotion (positive or negative) we experience depends on whether the outcome:

- improves our situation or makes it worse,
- is associated with a penalty or a reward,
- is certain or just a possibility,
- is a significant/powerful event that is difficult to cope with or it's not a very significant event and we can easily cope with the change, and
- is caused by the individual or an outside agency

### 9.2.2 Sequence Effects

Most service experiences consist of a series of events that occur over time. Lay tendency is to focus on a strong start and assume things will take care of themselves as the service encounter unfolds. At the other extreme we have service folklore that maintains every minute is significant. We now know that neither belief is accurate. According to numerous studies, people focus on the peak event, the ending event, and the trend of a sequence. The implications of this for design are profound: in the way we present information, for example, in a call center (get the bad news out of the way first) to the way we conduct a class (end on a high note, or "stick the dismount").

Notes

### 9.2.3 Duration Effects

We all know that an hour is not an hour. How quickly it passes depends on a number of factors such as whether we are involved in pleasant or unpleasant activities, whether we are paying attention to the passage of time, how many segments the experience is divided into, etc. A big question is how do we make positive events seem longer and negative events shorter in retrospect? There is some evidence that the greater the number of discrete segments that are perceived to the customer, the longer the process appears. Thus for an amusement park visit, several shorter rides make the day seem longer and more enjoyable than a few longer rides, even though the time spent actually riding was the same. In a call center, more steps and options create the perception of the interaction being longer than it actually is. In general we find that perceived duration of a wait, or equivalently the level of dissatisfaction with a wait depends on

- (i) emotions and moods,
- (ii) rate of goal progress and evidence of goal progress,
- (iii) degree of perceived control, and
- (iv) attention paid to passage of time

Existing techniques for handling the psychology of waiting can be inferred from these four variables. These variables also suggest other techniques for improving the waiting experience. For instance, a call back option in call centers affords greater control to the customers.

### 9.2.4 Shaping Attributions

One such insight is that we are predisposed to accept responsibility for success and reject responsibility for failure. (Protecting one's self-esteem is a dominate reason for such attributions.) For service encounter design, we want to find ways of conveying up front what is the customers' responsibility without damaging their self-esteem. Another insight is that we overestimate our ability to cause an outcome that is actually determined by chance. (We engage in counterfactual thinking—mental simulations—as to what might have been.) Often this is seen as the last step in an extended process and leads to the practical guideline that servers should avoid communicating near misses when dealing with a customer in situations when a constellation of factors resulted in the undesired final outcome.



*Did u know?* Every service outcome contains the potential for placing blame or claiming credit. Attribution theory provides insights into how people make these judgments.

### 9.2.5 Perceived Control

In virtually every service encounter, customers must relinquish some control to the service firm to get the job done, yet customers like situations where they perceive they have some control.

Research in many service settings has shown there is a relationship between perceptions of control and satisfaction. For example, studies in health care management have consistently shown that when patients have reasonable control over their treatment regimens, they are more satisfied than when doctors are in total control. In simple options such as allowing a patient to choose which arm from to draw blood from results in less feeling of pain than when ordered to draw blood from a specific arm. Even in intensive care situations, patients who are allowed to choose when they received visitors, when they eat and the level of exercise they could undertake, exhibit lower levels of stress and get well faster. Another form, and often a substitute for actual control is cognitive control where the customer feels she/he can rely on the system to work

fairly. For example, calls will be answered in order of arrival in a call center; or paychecks will be issued on the 15th of the month. When viewed this way, the concept of control can be approached in a more sophisticated way in planning service encounters.

Notes



Caselet

## **Case: UPS in 2006 – Customer Service and CRM**

### **Initiatives**

The \$42.58 billion United Parcel Service (UPS) is the world's largest package delivery company. To maintain its market leadership, UPS depends on state of the art technology and innovative Customer Relationship Management (CRM) practices. UPS' CRM strategy focuses on developing one-to-one customer relationships, while maintaining an IT infrastructure with 'dial-tone reliability'.

UPS uses a sophisticated data warehouse to capture all of the transactions and customer requirements throughout its system across the globe. Using business intelligence and customer-focused analytical techniques it continues to exceed most customers' expectations and also provide services before its competitors. UPS has reaped numerous payoffs from the millions of dollars it has spent on operations research to build the proprietary ground and air supply-chain-optimisation technology, including saving hundreds of millions of dollars on its air deliveries. In the next two years (2006-08), it expects more benefits, by giving the drivers access to data from the supply-chain-optimisation models in real time via wireless handheld devices.

**Source:** [http://www.ibscdc.org/Case\\_Studies/Marketing/Services%20Marketing/SVM0004P.htm](http://www.ibscdc.org/Case_Studies/Marketing/Services%20Marketing/SVM0004P.htm)

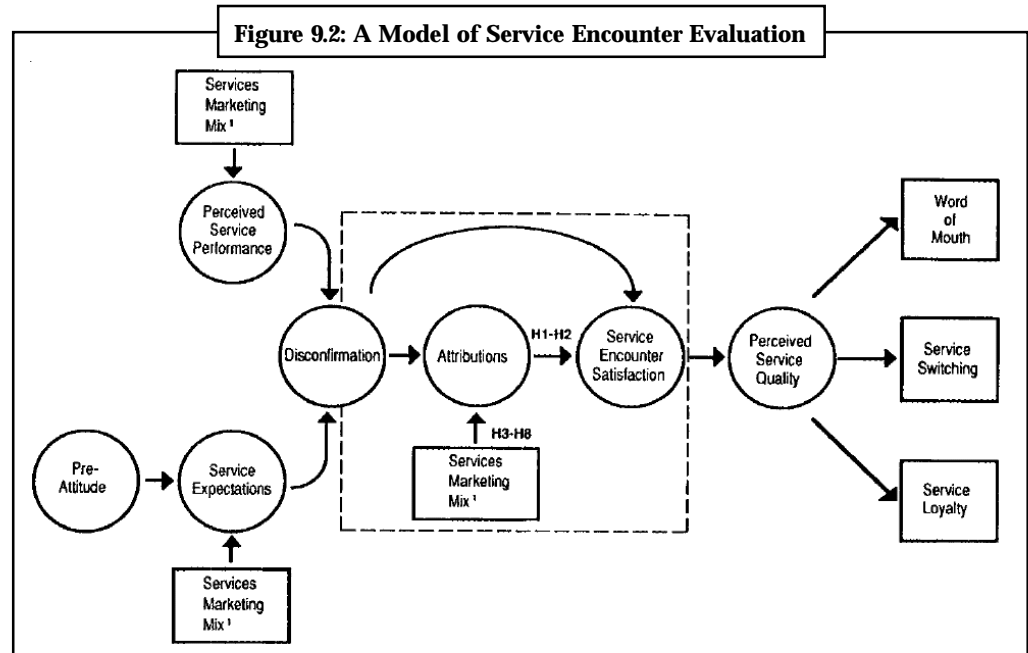
## **9.3 Creation and Evaluation**

The model of service encounter evaluation relies on the definition of the term service encounter as a period of time during which a consumer directly interacts with a service. This definition encompasses all aspects of the service firm with which the consumer may interact including its personnel, its physical facilities, and other tangible elements during a given period of time.

A model of service encounters creation and evaluation as follows:

1. On the basis of above concepts, Figure 9.2 represents a general model of the antecedents and outcomes of consumer satisfaction in service encounters. The first part of the model suggests that a consumer's preattitude will influence expectations about the outcome of a particular service encounter.
2. The second stage of the process suggests that the customer's immediate reaction after consumption depends on a comparison of prior expectations and perceived performance, resulting in confirmation of expectations or in positive/negative disconfirmation when expectations and performance do not match.
3. The next part of the model implies that causal contributions for disconfirmation will mediate customer satisfaction. That is before a customer determines his or her level of dis/satisfaction and subsequent behaviours may be modified. The positioning of the attribution construct is consistent with recent work in both consumer behaviours.
4. The final part of the model shows service encounter satisfaction as an input onto the more general construct, perceived service quality which in turn leads to later behaviours towards the service firm.

Notes



Source: <http://www.ida.liu.se/~steho/und/htdd01/9602205187.pdf>

### 9.3.1 Marketing Mix Effects

Though all of the mix elements are likely to influence satisfaction directly, the purpose of the model and experiment is to begin to understand how this influence occurs by illustrating their effects on satisfaction antecedents. In figure 9.2 the services marketing mix is shown as entering the service encounter satisfaction process by directly influencing three antecedents of satisfaction: expectation, perceived service performance and attributions. Because they have limited attention in the marketing literature and because they are of particular importance in many service settings, two of the new mix elements—physical evidence and participants—are the focus of the following discussion and experiment.

Because services are intangible and usually cannot be tried prior to purchase, customers look for tangible evidence of what they are about to experience in a given service encounter. Physical evidence such as environmental design, decor, signage, and business card/stationery send messages that help to establish the firm's image and influence the customer's expectations. The participants in the service environment also provide clues about what the customer should expect. Visual inspection of their dress and nonverbal cues as to the demeanor of both the service firm personnel and other customers in the service facility aid customers in categorising the firm and forming pre-experience expectations for the service encounter.

At the next stage of the evaluation process, elements of physical evidence such as noise level, odours, temperature, colors, textures and comfort of furnishings may influence perceived performance in the service encounter. Research suggests that such variations in physical environment can affect perceptions of experience independently of the actual outcome. Similarly, the attitudes and behaviours service personnel also influence perceived service performance. In the service literature, such behaviours usually are associated with what is called process or functional; quality as opposed to the outcome or technical quality. In addition, customers may be influenced by the perceived experiences of other customers.

The model suggests that marketing mix elements also may influence satisfaction in the service encounter through their effects on attributions for service disconfirmation. For example, when

things go wrong in a service encounter, employees frequently attempt to sooth disgruntled customers by apologizing, offering to compensate, and explaining why the service delivery failure occurred. Any of these behaviours may influence customer attributions about the firm's responsibility for the failure and the likelihood of its occurring again. Similarly, variations in the firm's physical facility may suggest different underlying causes when a failure occurs.

Notes

### 9.3.2 Influencing Customer Perceptions

A customer's purchase decision of a particular service largely depends on his perceptions of the service. Therefore, it is necessary for service organisations to know the factors that influence customer perceptions. Based on these factors, service organisations should develop strategies to influence customer perceptions and achieve higher levels of customer satisfaction. The following strategies will help service organisations influence customer perceptions.

#### Enhance Customer Satisfaction through Service Encounters

Service organisations should understand that service encounters play a crucial role in satisfying or dissatisfying customers. To increase the satisfaction level of customers during service encounters, service organisations should innovate ways of delivering their service. Further, service organisations should train their employees on ways to recover from a service failure, give them flexibility in delivering the services, offer tips to be spontaneous, and assist them in coping with difficult customers.

#### Reflect Evidence of Service

Before making a purchase decision, customers often try to assess the service evidence with the help of tangible clues like the service organisation's personnel, processes, and physical evidence. They evaluate the behaviour of the service organisation's personnel in terms of friendliness, knowledge of procedures, and their willingness to help customers. Customers also assess the flexibility involved in the processes and the physical evidence in terms of ambience and layout. Organizations should understand the significance of these clues and make efforts to reflect evidence of their service in terms of their people, processes, and physical evidence.


#### Communicate and Create a Realistic Image

A service organisation should not only communicate its promises clearly but should also ensure that it keeps its promises. This will create a positive image of the company in the eyes of its customers. Word-of-mouth publicity about a company can create a positive or a negative image of it in the minds of existing or potential customers. While customers who have had positive experiences with the company will indulge in good word-of-mouth publicity, those who have had unpleasant experiences will try to tarnish the image of the company by indulging in bad publicity. Therefore, it is important for organisations to be realistic in making promises to their customers. They should desist from making exaggerated claims that could damage their companies' image in future, due to their failure to meet promises.

#### Enhance Customer Perceptions of Quality and Value through Pricing

Often, customers view price as an indicator to assess the value or quality of a service. Customers are dissatisfied if they feel that the service is not worth the price they are paying for it. The dissatisfied customers will engage in negative word-of-mouth publicity, which can be dangerous to the service organisation. Therefore, service organisations should adopt a pricing strategy that can give a clue about the true value and quality of the service.


Notes

 *Task* Discuss the customer encounter situations in Airline industry.

**Self Assessment**

Fill in the blanks:

11. The model of service ..... evaluation relies on the definition of the term service encounter as a period of time during which a consumer directly interacts with a service.
12. Before making a ....., customers often try to assess the service evidence with the help of tangible clues like the service organisation’s personnel, processes, and physical evidence.
13. Customers are dissatisfied if they feel that the service is not worth the price they are paying for it. The dissatisfied customers will engage in negative ..... publicity, which can be dangerous to the service organisation.
14. Because services are ..... and usually cannot be tried prior to purchase, customers look for tangible evidence of what they are about to experience in a given service encounter.
15. A service organisation should not only ..... its promises clearly but should also ensure that it keeps its promises.

 *Case Study* **Case: First Serve, then Deserve**

**T**he concept of customer service in India is often shrouded in myth and mystery. For the same reason it does not get the importance it deserves. I would therefore like to start with debunking a popular myth.

**Customer Service is for Correcting Wrongs or Pacifying Customers**

Incorrect. Customer service is to make sure that the customer’s expectations are met. It gives the customer hope, confidence, faith and joy.

These are what the customer takes home with him before, during and after the sale. The brand experience that follows is what will decide whether she will come back for more. And that is what successful marketing is all about. Wooing a customer. Winning her over. Keeping her satisfied. And making her come back for repeats.

Customer satisfaction is one crucial aspect of the entire process. It is present before, during and after the sale. If you can satisfy the customer, you can be sure that you are well on your way to carving a niche for your brand in his mind and heart. And that’s what brand building is all about.

A customer service professional can make or mar a brand depending on the brand experience he delivers. Even though a brand is good, it may be destroyed in a customer’s mind due to a bad brand experience. A smile, a nod, eye contact, touch, feel, taste, voice, speech – all these are parts of the brand experience, as they are the tangible and intangible elements of the brand.

The equity of a brand is a dynamic concept. It is alive and just like a human being who breathes. A brand continuously gives its customers a brand experience. The customer service professional is the custodian of the brand. He either adds or subtracts to its equity

*Contd...*

through his action or inaction. And through this process he gives the customer a brand experience that is either good or bad. Brand experience is a crucial influencing factor in the life of a brand. To achieve brand experience, customer service standards must be set and must be met.

### **Customer Service Standards must be Set and They must be Met**

Any performance by a company, product or service depends on the expectations of the customer being defined as well as the delivery being up to the expectations so that there is satisfaction and delight.

Hence, my strong recommendation is: 'Customer service standards must be set. Customer service standards must be met.'

This is important because the expectations of the customers are growing by leaps and bounds. Indian customers have become world-class customers who want world-class products and world-class services. Companies which do not respect the Indian customer are rejected by the customer. Hence it is important to make sure that the customer service standards are set and met.

There are two types of customer service standards. One type is what I call the internal customer service standard. The second type is what I call the external customer service standard. Both these are important to ensure customer satisfaction. The external customer service standard is visible to the external customer and is a commitment and promise that the company makes to its external customers.

The internal customer standard is an internal working norm which has to be completed so that the external standard can be met.

For instance, if in a restaurant there is a norm set that the food will be served within 20 minutes of the order being placed, this is the setting of an external customer standard. However, to meet this external customer standard, it is important to set an internal standard for the kitchen so that the food is prepared and ready within 15 minutes, and the external standard is met taking into account five minutes of serving time.

The reason why meticulous planning is needed for customer service standards to be set and met is that if there are no specified or measurable norms there is bound to be a delay or error leading to customer dissatisfaction.

One would notice that after buying a computer or even an air-conditioner the delivery is made on time but not the installation. This reflects that external and internal customer service standards for installation were not set and therefore not met.

Customer service standards are reflections of the soul of any brand or company. If you want to give regular and sustained delight to customers make sure you follow my Brand Mantra – 'Customer service standards must be set! Customer service standards must be met.'

#### **Question:**

Do you agree with the writer that customer service is not about correcting wrongs and pacifying customers?

*Source:* – by Jagdeep Kapoor, thehindubusinessline.com

## **9.4 Summary**

This unit attempts to give an overview of the functions in as simple manner as possible.

- Our ability to manage the psychological side of service encounters has lagged our ability to create the means by which encounters occur.

**Notes**

- Given the ubiquity of service encounters throughout all of industry, even just modest success in enhancing the practice of service psychology can have a huge impact on society.
- Over the past few years, marketing of services has picked up pace and became popular worldwide. Service organisations largely compete on the basis of the quality of service provided by them.
- While some companies successfully deliver quality service to their customers, others are just clueless.
- Providing quality service is based on a service organisation's understanding of customer expectations and its willingness to meet or exceed these expectations.
- Further, customers judge a service organisation's performance by comparing their perceptions and expectations.
- In the midst of intense competition, companies can be successful only if they are aware of their customers' expectations and perceptions and are able to consistently deliver quality service.
- Therefore, service organisations should have knowledge about customer perceptions and the influence of factors such as service encounter, service evidence, image of the service organisation, and price of the service on customer perceptions.
- Service organisations should also attempt to understand the various types of service encounters like remote, face-to-face, and phone encounters to be able to understand customer perceptions.

### **9.5 Keywords**

**Boundary Spanner:** One who attempts to influence external environmental elements and processes

**Empathy:** Ability of the service provider to show concern for the customers.

**Responsiveness:** Willingness of the service provider and his staff to provide assistance and prompt service to customers.

**Desired Service:** Service that a customer desires and hopes to receive.

**Adequate Service:** Minimal level of service that a customer is willing to accept from a service provider.

**Zone of Tolerance:** Gap between customer's desired service expectations and the adequate service expectations

**Transitory Service Intensifiers:** Factors, which intensify or heighten the level of adequate service expectations of customers

**Predicted Service Expectations:** Level of service a customer believes he will receive from a service provider

**Remote Encounters:** It does not involve any direct human contact.

**Coping:** Process of how employees manage problem customers and situations effectively.

### **9.6 Review Questions**

1. "Customer expectations have a deeper meaning than being mere requirements". Comment.



2. Explain the five dimensions of service process with examples.
3. Explain the customer service level expectations with examples.
4. Analyse the factors that influence the customer desired and adequate levels.
5. Suppose you are the marketing manager of an airline company. How will you manage the customer service expectation of your airlines?
6. "It is very difficult to manage customer perceptions". Discuss.
7. Discuss the factors affecting customer perceptions.
8. Define the concept of Service Experience.
9. How services can be evaluated?
10. Elaborate the topic "service encounter".

Notes

### Answers: Self Assessment

- |                      |                                    |
|----------------------|------------------------------------|
| 1. False             | 2. True                            |
| 3. True              | 4. True                            |
| 5. False             | 6. Responsiveness                  |
| 7. Zone of Tolerance | 8. Transitory Service Intensifiers |
| 9. Implicit          | 10. Remote                         |
| 11. Encounter        | 12. purchase decision              |
| 13. word-of-mouth    | 14. intangible                     |
| 15. communicate      |                                    |

### 9.7 Further Readings



Books

Kahneman, Daniel and Amos Tversky, *Choices, Values and Frames*, Cambridge University Press, Cambridge, England, 2000.

Chase, Richard B. and Sriram Dasu, "Want to Perfect Your Company's Service? Use Behavioral Science," *Harvard Business Review*, vol. 79, no. 6, June 2001, pp 78-85.

Leonard L Berry, *Great Service: A Framework for Action*, The Free Press

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, Third Edition, Prentice Hall, US



Online links

<http://www.3sresearch.de/wp-content/uploads/ucscchase.pdf>

<http://www.ida.liu.se/~steho/und/htdd01/9602205187.pdf>

## Unit 10: Service Quality

### **CONTENTS**

Objectives

Introduction

10.1 Service Quality

10.2 Service Quality Issues

10.3 Service Quality Models

10.4 Importance of Quality

10.5 Summary

10.6 Keywords

10.7 Review Questions

10.8 Further Readings

### **Objectives**

After studying this unit, you will be able to:

- Identify the service quality issues
- Describe the gap model
- Discuss the service management model
- Explain the service marketing model

### **Introduction**

There are a lot of challenges that service marketers face due to the basic difference that prevails between service and goods. Some of the challenges that they constantly face are:

- Understanding customer needs and their expectations from service;
- Tangibilising the service offering;
- Dealing with different types and varieties of people – internal as well as external customers – as also the delivery issues;
- Keeping promises made to customers.

But the most intriguing challenge is the measurement and monitoring of quality.

Some questions regarding quality of service still elude any definitive answers:

- How can service quality be defined and improved when the product is intangible and non-standardised?
- How can new services be designed and tested effectively when the service is essentially an intangible process?
- How can the service firm be certain that its communication has been effective, consistent and relevant, especially when its other marketing mixes are also communicating? This apprehension is especially true with respect to the role played by the providers in the service transaction.

In this unit, you will learn about the quality issues in services and various service quality models.

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## **10.1 Service Quality**

Service firms do try to achieve total quality in their performance. The total quality marketing aims to achieve quality performance right at the first time. The entire organisation's orientation should be generating quality perceptions to the customers. Service firms can set targets for 100 per cent performance right at the first time. For some service organisations 100 percent quality performance is a must, unlike manufacturing organisations. An airport cannot satisfy anything less than 100 per cent performance in all its operations. Any failure anywhere may lead to disastrous consequences.

Service firms are required to develop or respect some philosophies relating to service quality. The following are some of the philosophies that promote quality atmosphere in the organisation.

### **10.1.1 Philosophies of Total Quality Services Marketing**

The philosophies of total quality services marketing are as follows:

1. ***Quality must be perceived by Customers:*** The employees of the service firm and the customers are involved in the service production. Both will perceive the quality that resulted in the service encounter. If employee is satisfied with the quality and customer is not satisfied, the service firm cannot claim quality performance. If the perceptions are vice versa, the problem of the service firm is only internal. It can train the employee in such a way that they can see the quality in customer reactions. The customer perceived quality is the only end towards which service firms should orient themselves.
2. ***Quality must be reflected in every Company Activity:*** A customer who reserved a hotel accommodation for five days will have hundreds of interactions - Right from gatekeeper's salute – to facilitating services performance, supporting services performance and their consistency, co-customers, events, etc. The sum of all these experiences will contribute for the development of an overall customer perceived quality. Excellent performance in some parts, average performance in some and poor performance in some parts of the basic service page can not contribute to the positive perceptions of the customers. Every activity should reflect quality performance. Therefore, organisations should develop a total view of the service product to perform quality rather than in bits and pieces.



*Note* Service is a bundle of features. Every part has its own role in contributing to the perceptions of a customer.

3. ***Quality requires Total Employees Commitment:*** Employees constitute the core strength for service firms. Only human beings can generate feeling and experiences in the customers differently every time. Satisfied employees exhibit their belongingness to the organisation and handle varied situations with greater involvement. Employee's commitment is an essential prerequisite to those service firms that want to ensure total quality service marketing. Internal marketing need to be operated efficiently to enhance morale and to motivate the employees to perform better in service encounters.
4. ***Quality can always be improved:*** There will be no ceiling for quality as far as services are concerned. The scope is always open for further improvement. Therefore, service firms should not satisfy with the existing performance standards of quality, even if the customers

Notes

are expressing satisfaction. A continuous research is necessary for the improvement of quality. Service firms should develop quality circles and strategic groups among the employees, so that they have a bank of ideas for further improvement. Sometimes, very minor improvements also have the capability to create major quality impressions to the consumers.

5. **Quality does not Cost more:** Top managements of service firms often hesitate to enhance quality standards with a feeling that it costs more. They also feel that the opportunity cost of employee time also matters when they allocate more time of an employee to each customer. However, these perceptions does not hold true in the case of services. Quality of service can be improved with to incurring additional costs. Japanese firms develop a concept called ZII, elaborated as Zero Investment Improvements. For example, in an airline service office, the customer quality perceptions differ, if nobody notice his presence until the introduce himself, if somebody recognize his presence, if somebody receive him with a welcome wish, or with a wish smile and shake hand, etc. All these changes in performance does not cost the organisation but influence the quality perceptions significantly. It is not possible to improve quality always with the additional cost. Yes, certainly many times quality performance is related to the cost. But the benefits also would be substantial in the short-run as well as in the long-run. The negligence in quality on cost parameters leads to loss of customers. Therefore organisations should orient themselves for the improvement of the quality.
6. **Quality Improvement sometimes require Quantum Leaps:** Service firms should not hesitate to introduce major changes in the organisational set up when such changes provide more quality to the customers. Computerization in nationalized Banks and Insurance companies was initiated by the top management to offer fast and accurate services to the customers. Though, such change requires crores of rupees investment, results in major disturbance in working for some period, employee resentment or adaptability, ears of retrenchment, and other problems, computerization was taken up keeping view the improvement in quality services to the customers. Service firms should prepare for such changes anytime.
7. **Every one contributes to Customer Perceived Quality:** All employees in the organisation will contribute for the customer perceived quality. Whether an employee is in interaction with the customer (or) not, whether he is within the line of visibility or not, his contribution would be there in the quality perceptions. In a bank branch, when a customer is in the process of depositing his money, some employees, who are not in interaction with the customer, have suppose picked up quarrel on some work sharing issue, it will have definitely a bad impact on the customer in spite of the fact that he has nothing to do with that incident. Further, if a customer is delayed by the frontline employees due to delay in support services, though contact personnel are positive to the customer, beyond a point of waiting customer gets dissatisfied.
8. **Quality should be monitored by the Employees themselves throughout the Organization:** In a university college, traditional control mechanism can make a teacher to take classes to the time and leave to the time, but no one can force him to teach well or train well the students. Only the teacher himself should get oriented. Presence of Head or Principal to monitor the teaching may further worsen the situation. Therefore, service firms should keep confidence on their employees and provide such mechanisms to them that provide feedback of their performance. Based on the feedback, employees try to modify their performance and a result quality can be provided to the customers.



*Did u know?* Service employees should perform with involvement and commitment, if quality is to be delivered. Unlike in manufacturing organisations, supervision by the angers cannot improve productivity and quality performance in service organisations.

### 10.1.2 Zero Defects vs. Zero Defections

Notes

Ron Zemke has identified ten important differences in total quality marketing to be identified by the service firms when compared to manufacturing firms. The required shift in the philosophy of service firms against manufacturing firms:

**Table 10.1: Zero Defects vs. Zero Defections**

	<b>Zero Defects (Manufacturing Firms)</b>	<b>Zero Defections (Service Firms)</b>
1.	Technical quality	Customer quality.
2.	Treating errors as mortal sins	Treating errors as opportunities to excel
3.	Precise standards and performance.	Transactions that delight customers.
4.	Minimizing the human element.	Capitalizing on the human element.
5.	Creating standards and protocols for every aspect of transaction.	Standards for technical quality. Empowerment and recover, strategies for customer quality.
6.	No surprises standard operating procedures, rote and drill.	Speed, flexibility, and ability to respond, Reliability for unique standards.
7.	Production quality	Performance quality
8.	Developing satisfactory and mutually beneficial relationship	Building lasting, creative customer relationship.
9.	Customer satisfaction.	Customer retention.
10.	Reworking every policy and procedure to perfection, creating absolutely seamless performance.	Experimenting, leap frogging the competition, taking measured risks and learning from them.

Zero defects are the target quality standards for the manufacturing firms. The product, which does to stand to the quality standards, will be rejected at the points of quality check. However, the total quality management concept that has been widely followed by many manufacturing organisations; Provides that there should not be any defects in the performance and the goal should be to achieve 100 per cent perfection right at the first time. In the case of services, customers are sold promises first. If the service firm does not fulfill the promise it is called a defection. Therefore, zero defections should be the goals service firms; Zemke's suggested change in orientation would certainly provide better insights to the service firms to ensure total quality services marketing.

### 10.1.3 Research on Service Quality

Service firms can obtain information through research in service quality. The following are some of the research approaches through which service firms can have useful information on general or specific issues relating to service quality.

- **Regular customer surveys:** Under this approach customer survey is a regular activity. Either census study or sample studies will be conducted on regular intervals.
- **Use of consumer panel:** Consumer panels are constituted with selected customers and specific feed back information will be solicited from them. The panels also will be given freedom to suggest on various issues to the organisation for further improvement.
- **Transactional analysis:** Many times service organisations encounter with grievous customers. With the use of transactional analysis, real reasons for dissatisfaction can be traced and also valuable suggestions can be obtained. However, this approach has a limited application to get information from market, as very few can be interacted through this approach. In the case of employees, this approach is of immense use to unfold the reasons for the problems and to take measures to correct them.

Notes

- **Perception surveys:** These surveys are to know the perceptions of the customers on various features of the service and on technical as well as functional quality of the service.
- **Mystery shopping:** This approach is being used by many service providers. The top management of the organisation will personally visit service outlets without revealing their identities either to the customer or to the frontline employees, and observe the ongoing activities. They may interact with customers and also frontline employees to know their experiences and problems and initiate changes immediately.
- **Analysis of complaints:** Consumer complaints are the major source of feedback to the service firms. The complaints received should be classified properly and routed to the right personnel at the right time so as to make them able to initiate corrective measures. The complainants should not be viewed only as a source for compensating the defects in service execution. They should be taken as sources for identifying operational defects. Correction should be institutionalised so as to ensure, nowhere such defect reoccur.
- **Employee's research:** Satisfaction levels of employees should be monitored continuously. Employee's research provides required information to the policy makers to develop such programmes and policies that make the employees satisfied always.
- **Similar Industry studies:** Studies conducted by service firms in the similar businesses also provide some insights over changing trends in the industry.
- **Intermediary research:** Some social organisations, research institutes, universities, trade associations and the like, also conduct research on service quality. The findings of such research studies are useful for the service firms to get market information on service quality.

### Self Assessment

State True or False:

1. According to Philip Kotler, market oriented systematic planning is the material process of developing and maintaining a viable fit between the organisation's objectives, skills, and resources and opportunities.
2. The aim of systematic planning is to shape the company's business and products so that they yield target profits and growth.
3. The internal marketing is to cease the pre-requisites for giving promises to customers.
4. The basic objective of any organisation, whether it is in manufacturing sector or in service sector, is to develop and provide market offerings that satisfy consumer's needs and wants and thereby ensure their own economic survival.

### 10.2 Service Quality Issues

**Defining quality in service:** In manufacturing, quality is defined by the degree of compliance between stated goals and achieved targets. It is therefore rather easy to measure and conform to a standard. In service it becomes difficult to comprehend the concept of quality and measure it. This is due to the mother of all characteristics for services – the intangibility factor – and it makes measurement and assessment of service quality extremely challenging. Perception of service quality is, additionally, felt by all parties involved in a service delivery process: service providers, customers and suppliers. They should therefore understand each other's definitions of service quality.

Quality can be viewed from multiple perspectives:

Notes

### Product-based

The definition is based on measurable parameters. It is suitable for goods, but becomes a challenge in services. The number of times a telephone rings before the receiver is picked up by a service provider can be a basis of measuring responsiveness.



*Example:* Domino's Pizza has successfully positioned itself as a firm, which promises to deliver its fare in half an hour – in other words, giving measurable parameters for quality.

### User-based

This definition is from the customer's perspective, reinforcing the notion that "quality is in the eyes of the beholder".



*Example:* An extremely well-read professor following all the guidelines of teaching can be condemned with "poor" rating if the students are not able to comprehend the accent, or if the delivery is uninteresting.

This element of subjectivity raises a challenge: that of finding out:

- What the customer expects,
- Which attributes to be included for garnering the largest appeal from the largest group of customers, and
- How to differentiate between those attributes that provide satisfaction and those that imply quality.

This approach begins where product-based quality definition ends.

### Manufacturing-based

This is conformance based and quality is perceived as an outcome of production processes. Output is considered to be of high quality if it conforms to design specifications. This factor is controllable by the service firm but does not take into consideration customer satisfaction.

### Value-based

This definition equates quality with value. The service provider will have to strike a balance between conformance and performance, evaluating benefits and price to customer satisfaction.

### Transcendental

Quality can only be experienced but can neither be described nor documented rendering it impractical for quality managers. Tourism is one such area where quality can, to some extent, be only experienced directly.



*Task* Give examples of some quality issues with some major service firms based on product, user and value.

**Notes**

Quality in service has two-window viewpoints: internal and external to the service firm. Internal quality is all about the entire service delivery process—from concept to encounter/experience/transaction/consumption. While internal quality is all about conformance and compliance to design standards, external quality is about the customer's perception. While the former can be controlled by the service firm, service quality is as perceived by the customers – and should be measured from that perspective. All aspects of 'marketing myopia' rear their ugly heads again when any service quality measurement is based on the manager's opinions of the customer's expectations:

- Service firms may not know the specific criteria for decision-making in service consumption.
- Management may be myopic on the way customers evaluate performance of the competitive products.
- Marketing myopia might creep in and make management blind to the differing and evolving needs of the consumers. The need evolution could be due to market and environmental factors, competitive response and technological advances.



*Caution* We give below the formal definition of quality:

Quality is “the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs.”

**Self Assessment**

5. Match the following sets:

**Set A**

1. You feel that the haircut you got is good even though others might not feel so.
2. Adventure sports like scuba diving and bungee jumping.
3. Time spent waiting in a salon leads to various perceptions regarding the dresser.
4. An airline's services are designed to near perfection.

**Set B**

- (a) Product based quality
- (b) User based quality
- (c) Manufacturing based quality
- (d) Transcendental quality

**10.3 Service Quality Models**

There are various models of service quality which are as follows:

**10.3.1 Gap Model of Service Quality**

This model can help a firm desirous of improving service quality to focus better on its strategies and service processes. This model can not only be used to find and identify areas in service delivery and designs (which might lack quality), but also measure and monitor quality in service.

Quality in service is as perceived by the customer. There is no other way to either comprehend or administer. As service is intangible; the only way to measure quality in service is to measure



the expectation of the customer before the receipt of service and measure his perception after the experience, that is, the service encounter. The gap between the two is a measure of the service quality. The larger the gap, the worse is the service quality; the narrower the gap, better the service quality of the firm; i.e., the firm is successful in meeting the customer's expectations... so far.

- the measurement of the expectation of the customers (in this case, students) before the service delivery (before admission), and
- the measurement of perception of the experience, after the service encounter (after admission, during the 2-year course and after the convocation);
- Thus measuring the gap between the two.



*Caution* Since consumer expectations keep inching upward constantly, so must the quality of service.

The model professes two types of gaps:

### The Customer Gap

Customer Gap is the gap between customer expectations and customer perceptions. This, in other words, is the service quality shortfall as seen by the customers. Customers develop expectations from receipt of external stimuli from many sources – ranging from those that are company-controlled to social influences. These form the bases of his reference-to-come for the service experience. The customer's perceptions indicate the service as actually received, for all practical purposes, since what we perceive is what is real to us. Perceptions are everything.

- Company-controlled external stimuli are service product/offer, price, advertising, promotions, displays, outlets, etc.
- Social influences as external stimuli are word of mouth communications and reference groups.
- Other influencers of expectations are personal needs and past experience of the customer.

The customer gap indicates the difference between actual performance and the customer's perception of the service. There are a lot of subjective judgments made by customers. Last experiences may prejudice them and change their estimation of quality.



*Example:* A customer is satisfied with a certain restaurant; but his last experience there (it could be because of a new waiter) could leave him embittered, washing away years of happy experiences at one go.

*Lesson:* We are only as good as our last 'Moment of Truth', and what it signified to the customer.

The quality of a service has two components:

- **Technical Quality:** This is the end result of the service operations process.
- **Functional Quality:** This is about the process, especially concerning the interaction between the customer and service provider.

These two factors inject a heavy dose of subjectivity into the service process.

Any service organisation would be desirous of closing the gap between what is expected and what the customer has received. To them, this would be absolutely necessary to build a long-

**Notes**

term relationship with the customer, to retain him. But in order to close the Customer Gap, another type of gap has to be closed: the Provider Gap.



*Did u know?* Service quality is all about the responsiveness of an organisation to meet the customer's expectations. The service performance is measured by the perceived service quality.

**The Provider Gap**

There are four provider gaps and these in sum total are the cause of the Customer Gap. They are the shortfalls within the service firm. To close the customer gap, the provider gap (or, as also known, Company Gap) has to be bridged. The four provider gaps are:

***Gap 1: Customer Expectation – Management Perception Gap***

It is the inability of top management to perceive what the customer wants, and is the main reason why a firm cannot meet a customer's expectations. The company is blinded by a perceptual veil of ignorance, arrogance or criminal neglect.

Some of the reasons why Gap-1 can occur are:

- inadequate marketing research;
- Lack of upward communication in the organisation;
- Insufficient focus on relationship building ('don't care' attitude), etc.

***Gap 2: Management Perception – Service Quality Expectation Gap***

This gap is created in the design process of the service product and lying down of specifications for service quality during service transactions. In the design process, this gap arises during the translation of management's perception of customer-expectation into design specifications. Managers would set specifications for service quality on the basis of what they believe the customer requires — a very dangerous presumption. The implications of this gap are that even if the firm has crystal-clear knowledge and understanding of the customer's expectations, there would be scope for misunderstanding this, leading to setting the wrong specifications, service designs and standards.



*Example:* A bank would believe that customer friendly interaction is what the customers prefer but the standard would be set on computerization — which is impersonal and neutral. There is no human contact to support the concept of 'friendliness'.

Some reasons for Gap-2 to occur are:

- Failure to connect service design to service positioning
- Unsystematic new-service development process
- Lack of customer-defined service standards
- Absence of a formal process of setting service quality goals, etc.

***Gap 3: Service Quality Specifications – Service Delivery Gap***

This occurs at the service provider level when there is deviation from service standards specified and actually delivered to the customers. This probably is the bane of all public sector institutions,

be they banks, insurance companies, hotels, travel agencies, hospitals or any such. The management's perception and service design standards might be accurate and perfect. But if the interacting service provider during service delivery falls short of the standards specified, the customer will get an impression of a poorly performing firm. This becomes especially important for that firm that is heavily dependent on people in performing the last transaction.



*Example:* Public sector banks might have the best of design specifications set by Reserve Bank of India; yet late-coming staff, corrupt employees (the Harshad Mehta scam of misuse of Portfolio Management Funds and the internal document mess-up in State Bank of India) would bring large gaps in quality to put it mildly.

Some of the reasons for Gap-3 to occur are:

- Ineffective recruitment, role ambiguity;
- Role conflict;
- Lack of empowerment, control and poor teamwork;
- Failure to match supply and demand (in a retail store there would be peak crowds during the evenings and slack demand during the afternoons, but the employee strengths would be the same), customers not cooperating or failing to live up to their roles (lack of knowledge and responsibilities);
- Channel conflicts, etc.

The service firm must ensure that systems, processes and people are in the right place. This will make sure that service delivery is as per the design standards set.

#### ***Gap 4: Service Delivery – External Communications to Customer***

This is essentially a communication gap. An over-hyped communication raises the expectations of the customer – and his benchmark of service quality and his expectations from the service delivery skyrocket. It will be difficult then for the firm to meet the expectation and there would inevitably be a shortfall. The tragedy is the customers would have been satisfied without the hype. But now they go back with memories of disappointment and are actually dissatisfied. This results from inadequate communication from the firm.

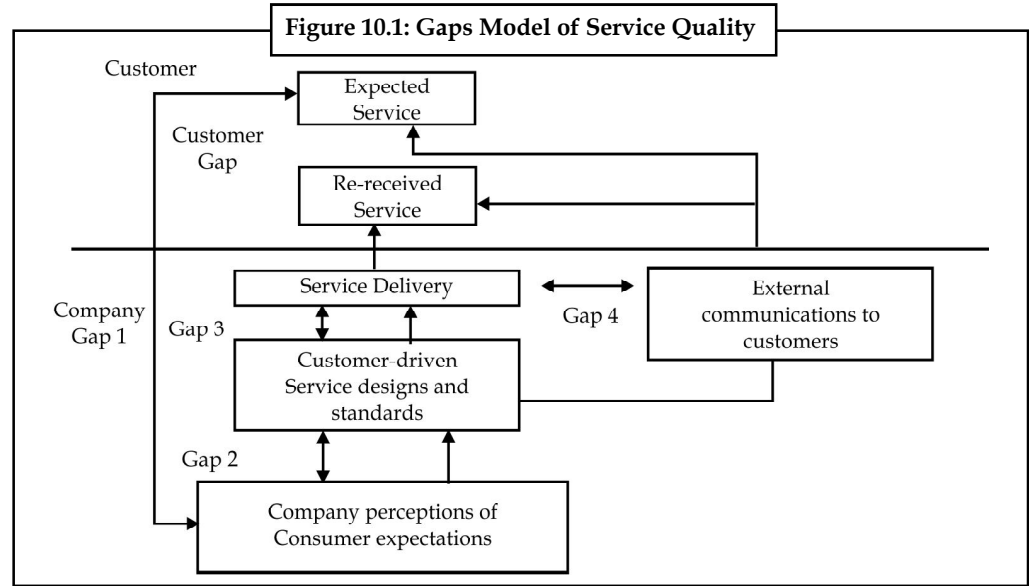


*Example:* Doordarshan, the much-maligned state TV broadcaster, would announce a certain programme, say an interview with Mr. Amitabh Bachchan, to be broadcast at 7 p.m. and they would fail to do so at that hour - creating huge disappointment. The viewers would curse and would not forgive DD despite an apology - even if one were forthcoming.

The causes of Gap-4 are:

- Lack of cohesiveness in marketing communications;
- Absence of strong internal marketing programme, not being able to meet customers' expectations through communications;
- Over-promising in advertising and personal selling;
- Inadequate horizontal communication between sales and operations;
- Differences in policies and procedures across branches, etc.

Notes



### 10.3.2 Service Triangle Management Model

There is a revolution taking place in the service industry, necessitating a radical change in every service professional's perspective.

Two models typify the change in the service perspective today:

- **The Industrial Management Model:** This is prevalent today and is a hangover from the industrial era.
- **The Market-focused Management Model:** This is the model which can be used by service firms as a replacement to meet the new environment changes for survival.



*Note* The gap is the difference between service delivery intention and capability and what is being communicated to the customers.

**The Industrial Management Model** is an approach to organizing a firm that focuses on revenues and operating costs and ignores the role personnel play in generating customer satisfaction and sustainable profits.

The model is a hangover of manufacturing methods but, sadly, is even now employed by many organisations. Firms that follow this model fully believe that the factors that bring in the revenue are advertising, sales promotion, accessibility, distribution and locational advantages. They are of the opinion that the cost drivers are personnel, operations and that these should be controlled. Even service sectors that seek price-competitive advantages follow this model.



*Example:* Jewellers of Mumbai employing Bengali goldsmiths. Even basic hygiene factors aren't met and the goldsmiths live and work in abysmal conditions. Another example would be the myriad call centers that are sprouting all over India today. To get clients and projects, they are pursuing cost-cutting measures as the means to control expenses.

Organizations following the industrial model believe that employees are indifferent, not very skilled, do not have the right attitude and motivation and therefore cannot be empowered for

complex tasks. They would prefer to depend on automation and technology. There is therefore greater dependence on senior personnel and less on frontline personnel.

## Notes

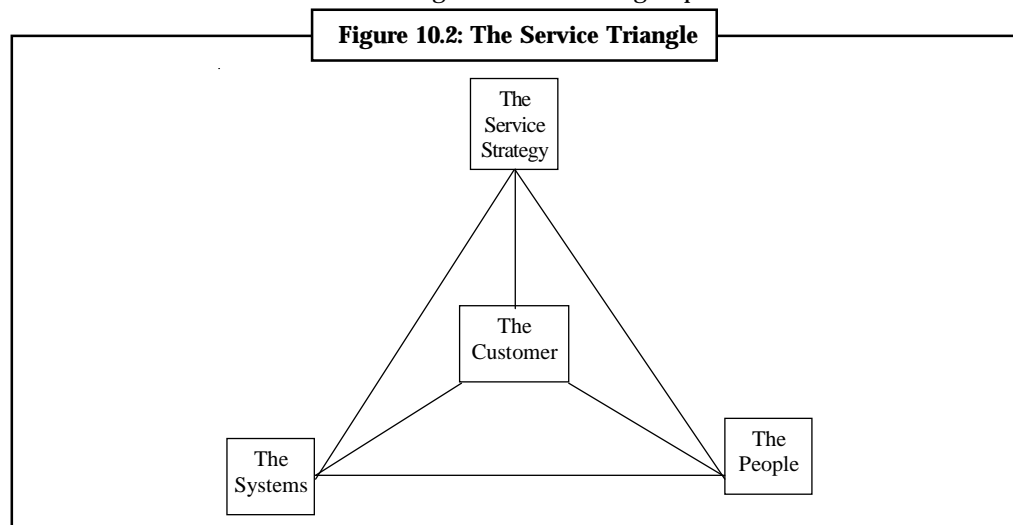
**The Market-focused Management Model** focuses on the components of the firm that facilitate the firm's service delivery system. It proposes that the firm should be supportive of those personnel who serve the customers and interact with them. In other words, there is more emphasis by the organisation on those employees who are in the front line. The support is in the form of equipment, office space (hygiene factors), moral support, motivation initiatives, career growth and money.

If a service-oriented firm decides to follow this model, then for them customer interaction or service delivery becomes the most important part of their strategy and the frontline personnel their most important tool. This model is based on the Service Triangle framework.

The service triangle framework depicts the relationships among three groups of the service organisation:

- The service strategy,
- Systems embedded in the organisation and
- The people of the organisation.

The customer is at the centre, interacting with each of the groups.



The framework has the following six relationships:

1. **The service firm's strategy must be communicated to its consumers:** This would not only apprise the consumer about the firm's service product and its distinguishing features but also about its commitment for delivery.



*Example:* Industrial Development Bank of India (IDBI) announces subscription is open for its deep discount, infrastructure, and other tax saving Bonds – all under a catchall name of Flexi Bonds. In its advertisements and through press conferences, the Bank would seek to make it very clear about the corpus fund; its utility, and most important of all, the benefits and safety of the instruments.

2. **The service strategy also needs to be communicated to the firm's employees:** This would ensure transparency, eliminating misunderstandings and aid in sincerity of commitment percolating down the management levels.

Notes



*Example:* Continuing with the example of IDBI, the bank has to educate its officers, channel partners like share brokers and investment consultants about the bonds, its features and benefits.



*Notes* When SAS was in deep trouble, its CEO tried to revitalise the organisation by re-energizing the employees.

“As soon as we received permission from the board, we distributed a little red book entitled ‘Let’s get in there and fight’ to all 20,000 employees. This gave staff, in very concise terms, the information about the company’s vision and goals that the board and top management already had. We wanted everyone in the company to understand the goal: we couldn’t risk our message becoming distorted as it worked its way through the company”.

“The new energy at SAS was as a result of the 20,000 employees all striving towards a single goal every day”.

3. ***There should be consistency in the service strategy and the systems that are developed to run the day-to-day operations to achieve the strategic goal.*** Systems would be designed only after the service strategy becomes clear and is agreed on. The systems would then greatly aid the service transactions/encounter. This would greatly affect the feeling of the customers, which would lead to their satisfaction.



*Example:* Thomas Cook might have a strategy this tourist season for its inbound tour packages. It has over 56 branches all over the country. Tour packages can have customised itinerary plans. But it should set up systems to carry out the strategy. Else, there would be confusion in all the branches, duplication in jobs like calculation of itinerary tariffs, repeat handling of the same enquiries from all the branches and of course ad hoc decisions will take place.

4. ***The impact of organisational systems on customers:*** This would in turn greatly influence their service experience.



*Example:* Continuing with the Thomas Cook example, if the organisational systems are faulty, like the communication to the inbound tourists (the itinerary details), or if a Thomas Cook employee is not aware of the latest currency exchange rates or the hotel tariffs – then the customer is discouraged and leaves with a lasting impression of the organisation as being inefficient and incompetent.

5. ***The importance of organisational systems and employee efforts:*** Rules and regulations should aid an employee in giving of his best, not hinder him in his service transactions.

“Giving someone the freedom to take responsibility releases resources that would otherwise remain concealed,” said Jan Carlzon, the legendary head of Scandinavian Airlines System (SAS). Carlzon was responsible for turning around SAS. Organizational systems should “transform people from administrators (read clerks) to leaders and facilitators.” The rules and regulations should empower the employee and facilitate him in intrapreneurship-entrepreneurship inside an organisation.

6. ***The interaction between the customer and service provider:*** It is these interactions that give rise to service encounters or critical incidents. They are also called Moments of Truth (MOT). The quality of these interactions is the source of customer satisfaction.



*Example:* An insurance company might profess to be very modern, high-tech and big, and boast of versatile products. But if the quality of transaction with the customer is not pleasant, the customer will have a negative perception, which actually is the measurement of the quality of insurance service by the company.



Caselet

### **Case: Moments of Truth in Hospitality – Do they spell Quality?**

**I**n the Hospitality industry, there are a minimum of twenty or thirty moments of truth in its provision of service. A moment of truth is when an interaction occurs between a customer and the service provider that can leave a lasting positive or negative impression on a customer.

Moments of truth in a hotel, for example, will undoubtedly include (but not be limited to) booking the room, check-in, check-out, dinner reservations, dinner ordering, dinner presentation, eating (quality and quantity of food) and laundry receipt.

Understanding the moments of truth that are important to an organisation's customers – by segment – is the key to understanding what is good customer service.

Completing customer satisfaction surveys is not a reliable way of determining moments of truth for two reasons.

Firstly, the design of most satisfaction surveys is usually poor. They ask a series of questions which request an opinion on how well the service provider performed. The opinion is prompted by a question similar to, "The booking was handled with efficiency and attention to my needs" and the answers range from totally disagree to totally agree on a five point scale.

Surveys designed this way give a misleading view, as they do not ask a question which seeks to understand the importance of the particular services prior to the request for an opinion.

A request for a response to a statement such as, "The booking process was very important to my level of enjoyment during my stay", prior to, "How well did we perform?" will at least make it clear whether the service we provided really mattered or not, independent of whether we provided the service well, or not. In most cases, only three or four of the "services" provided in a list of ten questions will actually be important.

The second reason why customer satisfaction surveys are unreliable is that even if they are designed well, satisfaction surveys tend to condition the recipients to give a response.

In a study reported in the *Harvard Business Review* in 1995, Jones and Sasser noted that customer retention levels of around forty percent correlated to an average rating of "satisfied" and did not reach 80% until the average rating reached "very satisfied".

Mercer reported in a separate study that eighty percent of customers who churned from an internet service provider had responded that they were "satisfied" or "very satisfied" with their service.

However, relying on customer satisfaction surveys to determine the quality of customer service is and how well an organisation has performed is risk.

**Source:** [www.changefactory.com.au](http://www.changefactory.com.au)

Notes

### 10.3.3 Service Triangle Marketing Model

It is said that services marketing is a game of “promises” played amongst three entities engaged in the service transaction. The three entities in a service transaction are:

**Figure 10.3: The Services Triangle Marketing Model**



#### The Company

This is the organisation that has dreamed up the service product, and its various benefits. It offers the service product to the customer to achieve its service goals to the customers.



*Example:* East India Hotels, which owns and manages the Oberoi brand of hotels, offers expensive accommodation, entertainment, leisure, etc. for the upper crust of society.

Autoriders have collaborated with Avis/Hertz-Rent-A-Car to provide a fleet of cars for rental usage to corporate and well-heeled individual customers.

#### The Customer

The customer is the one who wants his needs and desires satisfied. He will do so by consuming the service product.



*Example:* Romesh Bhandari wants a loan to purchase a car. He gets a loan from ICICI Bank at a certain rate of interest.

The Sharma family is bored and therefore goes to Essel World on a public holiday. They have a grand time.

#### The Provider

They are the internal customers of an organisation who invariably complete the service transaction on behalf of the company. They are mostly employees, but also include franchisees, channel partners, distributors, wholesalers, retailers, etc.



*Example:* Andromeda is the largest Direct Sales Agent (DSA) for Citibank and successfully sells its multibrand cards successfully.

Karvy Consultants and LIC, Reliance, etc. are other examples for this.



Three different types of marketing take place during the service transaction amongst the three entities:

Notes

- **External Marketing:** The company does “external marketing” on the customer. It promises benefits, explains features and assures satisfaction by way of advertising, public relations exercises and other forms of corporate communication. It uses mass-media to convey its promises. It “makes promises” to the customers.
- **Internal Marketing:** The Company does internal marketing to its providers. The company has to provide working space like offices, and equipments, like computers, and telephones to its provider. It also has to recruit, select and trained appropriate employees, channel partners, and franchisees. It enables the providers to complete the service transaction. The company “enables its promises”.
- **Interactive Marketing:** The providers do interactive marketing with the customer. The provider is the one who interacts with the customers. The provider is the face of the company and represents the company. Both the customer as well and provider get instant feedback about each other during a service transaction. Their transaction reflects the perception of the quality of the service. The provider “keeps the promises” made by the company to the customers.



*Task* Give some examples of major external and interactive marketing campaigns run by services firms.

### 10.3.4 SERVQUAL Model

This method says that customer service expectation can be measured along a few factors. There are two versions of this method.

#### Dimensions of Service Quality

We will discuss two works both of which will give the totality of dimensions to service quality.

**David A. Garvin:** Eight dimensions of quality were identified by Garvin:

1. **Performance:** Every product is supposed to deliver benefits and the measure of its quality is performance of the offer. A dish scourer, which can clean plates completely and quickly, would be a performance measure.
2. **Features:** These are in addition to the core product, which does not come as standard ‘features’, like add-ons.
3. **Reliability:** This is a measure of the degree of probability of the product delivering what had been promised.
4. **Conformance:** Delivery quality meeting design standards.
5. **Durability:** This is a measure of the length of time that a product can deliver benefits, without deterioration.
6. **Serviceability:** If the product can be repaired with ease and speed, then it is a measure of quality. It could include the behavioural dimension of service personnel, like their politeness.
7. **Aesthetics:** This is a measure of the product’s looks, design, touch and feel.

Notes

8. **Perceived quality:** Consumers develop a perception due to company-controlled stimuli like advertising, publicity and brand promotion, and social effects like word-of-mouth.

**A Parasuraman et al.:** Parasuraman, Valerie Zeithaml and Leonard Berry identified five dimensions with which consumers judge services.

1. **Reliability:** The service should be performed with dependability, and as per its promise.
2. **Responsiveness:** This concerns the attitude of the service provider to be willing to provide service. It also includes their sensitivity as well as timeliness in responding to customer requests.
3. **Assurance:** This relates to the knowledge, skill and competence of the service providers. It also indicates their ability to generate trust and faith, and also capability in service delivery with politeness and consideration.
4. **Empathy:** This dimension relates to caring, feeling as well as the ability to give personalised service.
5. **Tangibles:** This is a measure of the effectiveness of the physical evidence of the service provider like design layout and facilities.



Case Study

### Case: Central Bazaar

#### **Measuring Quality of Intangibles and Experiences**

Central Bazaar is a popular upcoming direct-to-home shopping service in South India. It offers goods and services ranging from provisions, home maintenance, groceries, toiletries, beauty, health and home deliveries, exchanges, etc. Its service was offered initially to the residents of New Delhi and Gurgaon, and then went on to include other towns.

It was a bold new experiment in electronic retailing format, tried for the first time in India, where customers ordered for their merchandise either through the net or the telephone. A 24-hour service delivery concept, it involved selling branded goods at a one per cent discount to maximum retail price (MRP), and unbranded goods at a five per cent discount to existing rates. Central Bazaar was cautious in using the web as an exclusive method for taking order, following the bust of dotcoms in 2000 and the bad name that e-commerce had earned. In addition, it set up call centers, which became the mainstay for receiving orders, and which was more in the comfort zone of the housewives.

The Central Bazaar model, then, was that of an online Kirana store, where the line was defined as telephone as well as website. The 'store' did not have an outlet where customers could come and shop; instead, all orders were to be booked through the phone or its website, with the company promising 24-hour delivery.

**The Process of Ordering from Central Bazaar:** The customer has to call up the call centre. There is a very efficient and trained team, at the service of the customers, ready to take down their orders. Here, Information Technology has helped the call centre to a great extent. Central Bazaar has a system where the call centre, the warehouse and the dispatch centre are all well integrated with each other. There is effective and efficient flow of information across all these levels.

All the products that are available with Central Bazaar are stored in a database, complete with the recent prices and quantity and also the promotions carried out by different

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companies, while also featuring Central Bazaar's exclusive offers. Thus, when a customer calls up the call centre, he/she is given all the information, right from the product quantities available, prices, offers and also the amount of money that the customer saves.

The call centre agents have all the knowledge about the product, i.e. the product features, its quality, its uses, etc. Thus, they are in a position to inform the customers correctly about the various aspects of the products that are being ordered. In case of any product not being in stock, the call centre agents are immediately informed about it, so that they can suggest alternative products to the customer. The order is delivered at the customer's house at the time convenient to the customer, free of cost. Not only does this process put the customer at ease, it gives her the much-needed convenience as regards both of time and place.

**The Processing of the Order:** Once the order is confirmed and the customer decides the time of delivery, the order is forwarded to the warehouse department. This department is responsible for getting the order ready for dispatch. This department prepares a list of the items in the product and gives it to a person who does the "shopping". The warehouse is very methodically designed. There are different markings for different racks for easy identification of the items. So the "shopper" moves around the warehouse picking up the items in the list. At the end, an invoice is prepared and the items are packed in totes and then sealed.

**Dispatch Operations:** Once the list is given to the "shopper", the orders are sorted according to the area of delivery and by the time of delivery. Once the totes are packed and sealed, they are arranged in the dispatch centre according to the different areas of delivery. The dispatch centre is very well organised, by way of separate markings for different areas of delivery.

Central Bazaar has an efficient team of delivery vans and drivers at their disposal and also a very efficient team of delivery boys. They are provided with proper training as to how to deal with customers, the different modes of payment, and the different coupons acceptable by Central Bazaar, etc. They are regularly evaluated on various parameters like politeness towards the customer, cleanliness of merchandise and service delivery, consent to keep the items, the ability to satisfactorily respond to the queries of the customers, etc.

**Delivery Operations:** The orders are loaded in the vans according to the knowledge of the drivers about the respective areas. This saves a considerable amount of time required to search for the correct address. Thus the delivery reaches the customer's house on time. The mode of payment is either by cash or credit cards and that too only at the time of delivery.

**The Advantages of Central Bazaar:** The format had many apparent advantages:

**For customers:**

- **24x7:** It was designed to be a genuine 24 hours, seven days-a-week shopping experience. This gave the customers a unique option – especially those who did not want to be tied to the commercial establishments' framework. It was a promise of genuine empowerment.
- **Impersonal:** Shoppers, especially women, were embarrassed to ask the kirana store keeper for personal hygiene products like sanitary napkins, contraceptives, and inner wear. The Central Bazaar format of ordering on the phone or through the web made it impersonal and avoided embarrassment for the shoppers.
- **Shopping Assistance:** The call centre had agents who were trained to provide all assistance to buyers. To help deal with any first time apprehensions, Central Bazaar can also send a customer service agent to a customer's house to help set up an online shopping service facility that was fully customised to their individual needs.

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- **Home Delivery:** Central Bazaar catered to convenience shopping, with the facility of ordering from home coupled with free home delivery. This was especially useful in Bangalore and Chennai, where, due to overt dependence on public transport such as Rapid Mass Transit System (commuting electric train service!), it was next to impossible for the customers to shop and then carry the bulky parcels home during the rush hour.
- **5000 brands:** The electronic retailer, with over 5000 brands, offered a wide choice of varieties and assortments of products, to cover the widest possible customer base. It also was the intention of the retailer to be a one-stop-shop for home products.
- **Special Promotions:** Central Bazaar offered not only the usual promotions of the FMCG vendors but also its own store promotions. This helped in not only setting the tone of differentiation amongst other retailers but also in communicating its enhanced value propositions.
- **EDLP:** The pricing strategy of Central Bazaar was Every Day Low Price, meaning that all merchandise was available every day at a one per cent discount to Maximum Retail Price (MRP), and unbranded goods at a five per cent discount to existing rates. This was a competitive advantage on price that was hard to ignore.

**For Central Bazaar:**

- Adapting to the changing demographics of family, gender, income, occupation, education, etc. Urban India in general and Mumbai in particular, has been witnessing perceptible shifts in its demographic profile. Joint families are giving way to nuclear families for various reasons:
  - ❖ **Lack of living space:** With increase in family size across three generations, it was about time for the new family to relocate itself.
  - ❖ **Job opportunities:** The new generation got a job in another part of the megalopolis, and preferred to stay close to the work area instead of commuting. New Bangalore was a classic case. It was fast becoming an institutional hub for BPOs, educational institutions and, of course, IT companies.
  - ❖ **Individualism:** The new generation and the new family were reluctant to conform to the joint family code and sought a greater degree of individual expression in respect of food, interior décor, child rearing as well as lifestyle.

Additionally, women were joining the workforce in larger numbers. Dual income meant not only more scope for conspicuous consumption, but also less time for leisure and shopping. The convenience offered by online shopping was irresistible, freeing time for leisure and self developmental activities. This new generation customers were more educated and aware, and recognised brands and their promise better than the previous generation. They did not feel the need to compare shopping products and were comfortable ordering through the phone or net.

Central Bazaar felt that they were offering the market just the right kind of format, considering the changing demographics. With the family spending more time in their occupation, commuting, and lifestyle changes, ordering on the phone was one more of the adaptive behaviours.

- **escaping the location trap:** “Location, location, location” was the call sign for any retailer. Its decisive competitive advantage lay in the right location choice, which

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## Notes

brought in the much sought after footfall and took advantage of the “traffic”. Location by defining the catchments area for the store was a strategic issue. Central Bazaar escaped the location trap by being “accessible” 24 × 7 to all people in the designated suburbs of Mumbai: a phone call or a “click” was all it took to order, and the merchandise was delivered by the retailer’s vans right at the doorstep.

- **No inventory:** Central Bazaar does not exactly escape the inventory trap, but manages to do better than other offline stores. It has a huge godown and warehouse, where it stocks its 5,000-brand merchandise line-up, and from which its “pickers” select the order items. What it escapes from is expensive interior décor, visual display and merchandising, shoplifting, etc.?
- **Micro marketing:** The delivery system enables Central Bazaar to get close to the customer’s living environment for further interactions and micro marketing. The sales call can become customised and the customer’s eyeball and attention can be garnered exclusively and qualitatively for effective marketing and relationship building.
- **Customer psychographics:** Receiving orders on the net or through the phone and delivering the merchandise to their homes gives Central Bazaar an incomparable advantage over other retailers in customer analysis. It has access to hitherto unavailable data on the customer, including not only his demographic profile but also his psychographics. Central Bazaar can now track the customer’s purchase patterns, know his preferences, and get a glimpse of his perceptions, personality as well as his attitude. This would undoubtedly make him tailor and customise his retail marketing, including merchandise and promotion offers, retail communication, and other value-added services.

*Problem for Central Bazaar*

Mr. Joseph Mathew, General Manager, Central Bazaar had a problem. He wanted, with evangelical zeal that the unique service format should succeed. He not only wanted Central Bazaar to have a distinctive market presence and mind share but also garner revenues, market share and market size. He fully understood that there existed a linear relationship between customer satisfaction and profitability. He dreaded the possibility of having dissatisfied customers; but he was more scared; by the fact that he had no way of accessing basic data about the dissatisfied customers; such as:

- who they were?
- Which aspect of Central Bazaar’s service they were dissatisfied with?
- The degree of their dissatisfaction

Also, he realised, ensuring consistent service delivery implied was a way towards the quality goal. His biggest problem was not only in measuring the quality of service delivery, its consistency and customer satisfaction at Central Bazaar but also in finding comparable benchmarks. He knew that customers compared stores, formats and different aspects of the service retail-mix like merchandise, locations, layout, promotions and other communications and the behaviour of the retail personnel. He also knew that this comparison was crucial in building their preferences. Central Bazaar was a unique e-tailer, with no known direct competition. He was up against retailers with different formats - supermarkets, kirana stores and discount stores – but fighting for the same customers’ share of wallet and heart share. The undeniable fact was that the shopping experience in Central Bazaar was definitely different from that of other “offline” format stores. ‘How do you compare oranges with mangoes!’ he thought.

**Question:**

Can you find ways and means to measure quality in intangible offerings like services?

Notes

**Self Assessment**

Fill in the blanks:

6. In a restaurant, rock music is being played but it's quite possible that many people don't like it. This might lead to Gap .....
7. An educational institute has by mistake printed the wrong telephone numbers on its pamphlets. This may nonetheless lead to Gap .....
8. A Club is giving free passes for a *gazzal* concert to all its lifetime members. This type of promotion is called ..... marketing.
9. The conflict between whether to go a particular restaurant or not may lead to ..... gap.
10. A company advertises those exotic holidays at just ₹ .9999 per person for the employees who sell packages worth ₹ 2,00,000 or more is ..... marketing.
11. .... model focuses on the internal customers more than operations.
12. Critical incidents or service encounters are also called .....
13. .... is a measure of the degree of probability of the product delivering what had been promised?

**10.4 Importance of Quality**

The importance of quality can be assessed by going though the following points:

- **Lower Costs:** Higher quality of services imply fewer mistakes for any repeat tasks, service recovery exercises or refunds to disgruntled customers. Preventive and corrective measures through quality control processes lower costs and increases productivity.
- **Immune or Less Vulnerable to Price War:** Service firms known for their high quality services have an additional differentiating attribute and can avoid the service commodity trap. They can afford to have a higher price as they offer more benefits than the competition.
- **Higher Customer Loyalty:** As mentioned in the previous unit and section, service quality ensures customer satisfaction that drives customer loyalty and enhanced profits.
- **Higher Market Share:** Loyal customers contribute to positive word-of-mouth publicity (the 'buzz effect'), which broadens customer base with minimal costs.
- **Loyal Internal Customers:** The previous unit has explored the linear relationship between happy employees and customer loyalty, and a firm's profitability. Employees become proud of the firm for which they are working; having a sense of belonging is known for inspiring and delivering high quality services. Lower attrition level lowers manpower and training costs and the service firm can leverage on the knowledge and skill of its employees.
- **Higher RoI:** The service-profit chain had established in the previous unit that high quality services contribute to higher profitability.

**Self Assessment**

State True or False:

14. A service firm that provides high quality services can afford to have a higher price as they offer more benefits than the competition.

15. Loyal customers contribute to positive word-of-mouth publicity.
16. Higher the quality of services provided by the provider, higher will be the attrition rate with the provider.

Notes

## 10.5 Summary

- In manufacturing, quality is defined by the degree of compliance between stated goals and achieved targets. It is therefore rather easy to measure and conform to a standard.
- In service it becomes difficult to comprehend the concept of quality and measure it. This is due to the mother of all characteristics for services – the intangibility factor – and it makes measurement and assessment of service quality extremely challenging.
- Quality in service has two-window viewpoints: internal and external to the service firm. Internal quality is all about the entire service delivery process—from concept to encounter/experience/transaction/consumption and external refers to the customer expectations.
- The Gap model can help a firm desirous of improving service quality to focus better on its strategies and service processes. This model can not only be used to find and identify areas in service delivery and designs but also measure and monitor quality in service. It consists of two types of gaps—consumer gaps and provider gaps.
- Customer Gap is the gap between customer expectations and customer perceptions. This, in other words, is the service quality shortfall as seen by the customers. Customers develop expectations from receipt of external stimuli from many sources—ranging from those that are company-controlled to social influences.
- There are four provider gaps and these in sum total are the cause of the Customer Gap. They are the shortfalls within the service firm.
- Gap 1 is the customer expectation and management perception gap, Gap 2 is the management perception and service quality expectation gap, Gap 3 Service quality specifications and service delivery gap and Gap 4 is the service delivery and external communications gap.
- The Industrial Management Model is an approach to organizing a firm that focuses on revenues and operating costs and ignores the role personnel play in generating customer satisfaction and sustainable profits.
- The Market-focused Management Model focuses on the components of the firm that facilitate the firm's service delivery system. It proposes that the firm should be supportive of those personnel who serve the customers and interact with them.
- SERVQUAL method says that customer expectations can be judged based on following factor: responsiveness, assurance, tangibility, empathy and reliability.
- The importance of quality in services finds its base in lowered costs, higher customer loyalty, higher market share, loyal internal customers and higher ROI.

## 10.6 Keywords

*Customer Gap:* Gap between customer expectations and customer perceptions

*External Marketing:* Communication between company and customers

*Interactive Marketing:* Communication between providers and customers

*Internal Marketing:* Communication between company and providers

**Notes**

*Moments of Truth:* Interaction between the provider and customer

*Provider Gap:* Gap from provider's side, cause of customer gap

*Quality:* Totality of features of service that bears on its ability to satisfy given needs

*SERVQUAL:* Gives factors that affect customer expectations

*Transcendental Quality:* It can only be experienced not described

*User based Quality:* Defined from customer's perspective

*Value based Quality:* Equates quality with value

### **10.7 Review Questions**

1. Explain how intangibility poses problems in measurement of service quality. Give examples.
2. "Marketing myopia might creep in and make management blind". How does it relate to service quality?
3. In services, perceptions are everything. Do you agree? Support your answer with valid proofs.
4. Suppose you are the marketing manager of an airline company. How will you differentiate between the factors that provide satisfaction and those that imply quality? Is there any distinction at all?
5. Take example of any two services and explain the customer gap.
6. Critically assess the usefulness of the Gap model for measuring quality in the hospitality industry.
7. Discuss the loopholes in the industrial management model. Does the marketing model help overcome those loopholes?
8. "It is very important to communicate firm's strategies to both, internal and external customers". Explain with examples.
9. Discuss the service encounters in airline industry. What can be the possible problems with each encounter and how can they correct it?
10. "Services marketing is a game of 'promises' played amongst three entities". Comment.
11. How can you link service quality with internal and external customer loyalty? Explain with examples.
12. Suppose you are the marketing manager of a counseling services firm. How can you use the gap model for service quality? Suggest ways to close each gap.
13. Suppose you are the marketing manager of a social club like Country Club. What factors will you keep in mind to meet customer expectations? (Use SERVQUAL method)

### **Answers: Self Assessment**

1. True
2. True
3. True
4. True



5. 1. (b)
2. (d)
3. (a)
4. (c)
6. 1
7. 4
8. External
9. Customer
10. Internal
11. Market management
12. Moment of truth
13. Reliability
14. True
15. True
16. False

Notes

### 10.8 Further Readings



Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi  
Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US  
Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi



Online links

[www.cost280.rl.ac.uk/documents/.../documents](http://www.cost280.rl.ac.uk/documents/.../documents)  
[www.qualitydigest.com/html/qualitydef.htm](http://www.qualitydigest.com/html/qualitydef.htm)  
[www.sunway.edu.my/others/vol4/service\\_quality.pdf](http://www.sunway.edu.my/others/vol4/service_quality.pdf)  
[www.comsoc.org/~cqr/FAE\\_Docs/A1.../sv1quality](http://www.comsoc.org/~cqr/FAE_Docs/A1.../sv1quality)  
[www.degromoboy.com/cs/gap](http://www.degromoboy.com/cs/gap)

## Unit 11: Customer Loyalty

### CONTENTS

Objectives

Introduction

11.1 Influencing Customer Perceptions and Expectations

11.2 Relationship Marketing: Ladder of Customer Loyalty

11.3 Customer Retention through Relationship Marketing

11.4 The Service-profit Chain Model

11.5 Customer Loyalty

11.6 Components of CRM

11.7 Summary

11.8 Keywords

11.9 Review Questions

11.10 Further Readings

### Objectives

After studying this unit, you will be able to:

- Analyse how customer perceptions and expectations are managed through marketing research
- Analyse the concept of customer relationship management in services
- Elaborate the concept of Customer Loyalty
- Explain the components of CRM

### Introduction

*“Every great business is built on friendship.”*

— *JC Penney*

The above findings give a clear message. The service firm tends to lose a lot of potential customers at the very first stage of customer acquisition itself, by not making that all-important second phone call or the second house call. If customer acquisition has been proved to be more expensive than customer retention, then in order to build a profitable customer base an all-out effort should be made by the service provider to optimise the cost, expense and effort of customer creation.

**More about the customer market:** This consists of a service firm’s present and potential customer. It is definitely the main reason for the existence of the firm. They consume and experience the firm’s different service offers and generate the revenue for it to be a profitable proposition. They are the target of the service firm’s communication, service process and delivery.

The customer is the main compelling feature for focusing the activities of the service marketer. The service marketer should concentrate on the service transaction process – less with the intent to hook the customer and turn the encounter into a successful sales transaction and more with a

view to completely satisfy his need. The service marketer should build long-term relationships which results in repeat encounters and successful customer retention.

Notes



*Example:* When an insurance agent (or ‘advisor’ as the present nomenclature is) makes his ‘pitch’, he is intent on selling those products that would earn him more commission. The advisor is really supposed to do a critical need analysis of the consumer and then offer him alternatives, which would suit his present and future budgets. The advisor should also keep in mind that the customer would have growing needs and there will always be opportunity to offer other products to the customer later. He should therefore shift his focus from a single transaction sale to long-term relationship building.

Given on the next page is a chart (Table 11.1) on the difference between the two types of marketing that can be directed at the customer market.

Many service firms, placed under monopoly and control regimes, did not have customer orientation and instead followed the transactional route, looking for short-term objectives. It was easier and required less involvement on the part of the service marketer. But many realised that it was turning out to be expensive to create customers – and then keep creating more. It was cheaper to have effective customer retention strategies in place.

## **11.1 Influencing Customer Perceptions and Expectations**

A customer’s purchase decision of a particular service largely depends on his perceptions of the service. Therefore, it is necessary for service organisations to conduct a research to know the factors that influence customer perceptions. Based on these factors, service organisations should develop strategies to influence customer perceptions and achieve higher levels of customer satisfaction. The following strategies will help service organisations influence customer perceptions:

1. **Service encounters:** Service organisations should understand that service encounters play a crucial role in satisfying or dissatisfying customers. To increase the satisfaction level of customers during service encounters, service organisations should innovate ways of delivering their service. Further, service organisations should train their employees on ways – to recover from a service failure, give them flexibility in delivering the services, offer tips to be spontaneous, and assist them in coping with difficult customers.
2. **Reflect evidence of service:** Before making a purchase decision, customers often try to assess the service evidence with the help of tangible clues like the service organisation’s personnel, processes, and physical evidence. They evaluate the behaviour of the service organisation’s personnel in terms of friendliness, knowledge of procedures, and their willingness to help customers. Customers also assess the flexibility involved in the processes and the physical evidence in terms of ambience and layout. Organizations should understand the significance of these clues and make efforts to reflect evidence of their service in terms of their people, processes and services cape.
3. **Communicate and create a realistic image:** A service organisation should not only communicate its promises clearly but should also ensure that it keeps its promises. This will create a positive image of the company in the eyes of its customers. Word-of-mouth publicity about a company can create a positive or a negative image of it in the minds of existing or potential customers. While customers who have had positive experiences with the company will indulge in good word-of-mouth publicity, those who have had unpleasant experiences will try to tarnish the image of the company by indulging in bad

**Notes**

publicity. Therefore, it is important for organisations to be realistic in making promises to their customers. They should desist from making exaggerated claims that could damage their companies' image in future, due to their failure to meet promises.

4. **Quality and value through pricing:** Often, customers view price as an indicator to assess the value or quality of a service. Customers are dissatisfied if they feel that the service is not worth the price they are paying for it. These dissatisfied customers will engage in negative word-of-mouth publicity, which can be dangerous to the service organisation. Therefore, service organisations should adopt a pricing strategy that can give a clue about the true value and quality of the service.

**11.2 Relationship Marketing: Ladder of Customer Loyalty**

The long and the short of it is that, building relationships with the customer (*who incidentally is NOT interested in having any additional bondage!*) and marketing for it is the key to as intangible an offer as services. As the subsequent sections will explain, different customers have scope for different relationships.

Relationships between the customer and the service provider keep changing from the time of their acquisition to their retention. In the beginning the relationship is that of prospects, of mutual evaluation. After they have decided to choose each other the service firm re-designates the prospect as a customer. He has potential and there is tremendous scope for them to symbiotically grow with each other. Deeper need analysis of the customer is made and the customer reciprocates in the strength-weakness analysis of the provider for his range of services.

The customer begins to trust the provider and the provider categorises him as a high net worth entity. The customer metamorphoses as a client. He now merits individual and personalized attention from the service provider. With stronger relationship, he, to varying degrees, becomes an unpaid salesman of the service firm. From a supporter of the firm he becomes an advocate, recommending the firm to whoever seeks referrals. He often eulogizes the service provider, unsolicited. In other words, so delighted is he with the service that he has metamorphosed into a missionary! That would be termed as successful service marketing exercise.

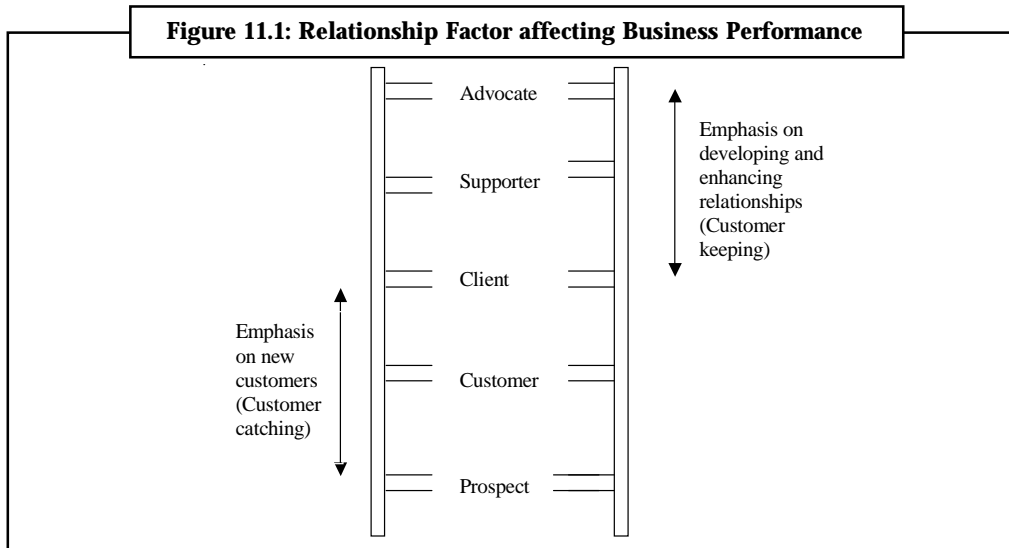
**Table 11.1: Transaction vs. Relationship Marketing**

Transaction Marketing	Relationship Marketing
Focus on single sale	Focus on customer retention
Orientation on product features	Orientation on product benefits
Short timescale	Long timescale
No emphasis on customer service	High customer service emphasis
Limited customer commitment	High customer commitment
Moderate customer contact	High customer contact
Quality is primarily on concern on production and not marketing	Quality is the concern of all

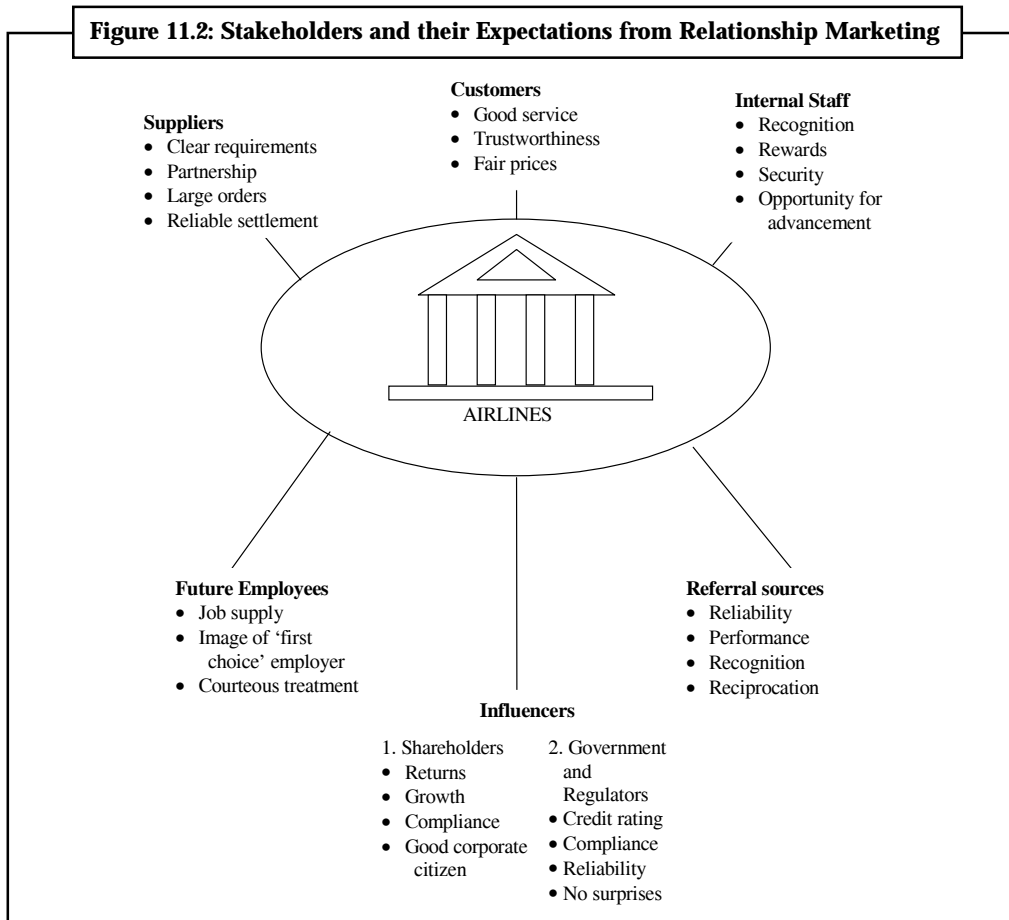
Source: Adrian Payne, "Essence of Services Marketing", PHI, 1993: pp. 32

Figure 11.1 below illustrates a flow of relationship factors affecting business performance in very large number of service sector firms.

Notes



Simultaneous with the development of strong relationships, the expectations of customers and all stakeholders start rising rapidly, and the service firm is expected to come up to their soaring expectations in order to vindicate their promises to all customers. Each of the stakeholders and



**Notes**

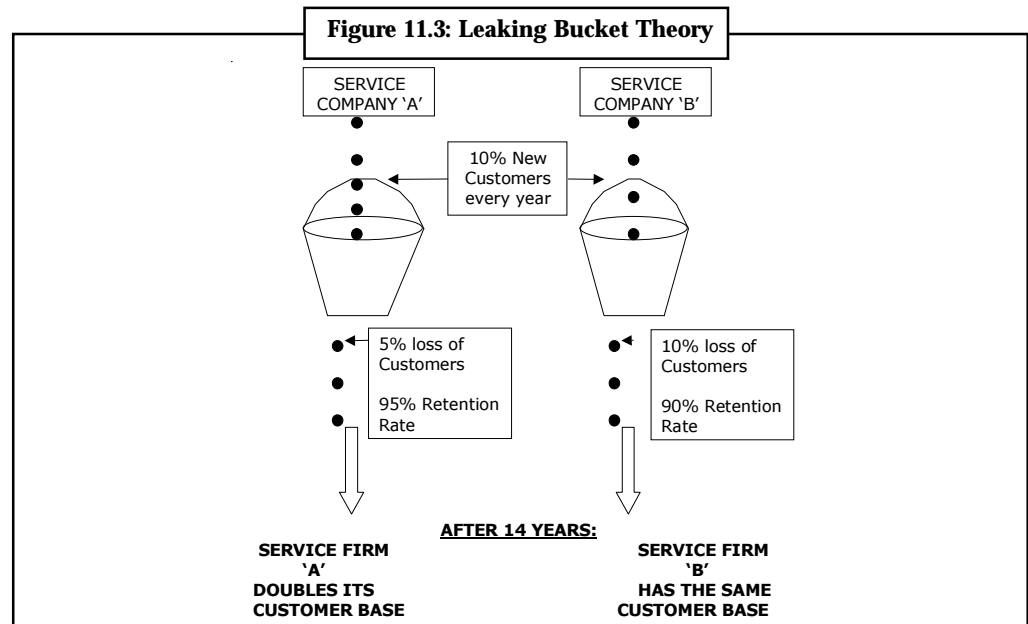
each of the customers of the six-market model have expectations that are different from each other. The firm is now six-times challenged – to first build and hype up expectations; to bond relationships; and then retain customer loyalty by meeting those expectations to the maximum extent possible.

Let’s take the example of an airline (see Figure 11.2) to drive home this thesis. The expectations of the customer market would include good services that are simultaneously value for money (VFM) and full of trust; the internal market of the airline expects security, recognition, advancement in career and rewards. Similarly, the supplier market expects large orders, quick and reliable settlements, partnering and not adversarial roles, (agencies, franchisees) with clear briefings and requirements; the view from the campus (recruitment market) is for job requirement, courteousness and the image of ‘first choice employer’.

**11.3 Customer Retention through Relationship Marketing**

For a service firm, its marketing philosophy should be:

- To acquire customers
- To retain customers
- To do business with only profitable customers.



It is more expensive to acquire customers than retain customers. But customer retention becomes a challenge in the era of heightened competition and decreasing customer loyalty. Various researches point out to the fact that customer acquisition is five to ten times more expensive than customer retention. The above diagram explains the leaking bucket theory (see Figure 11.3 above) – that all things being equal (firm size, service offer, rate of customer acquisition, etc.), a firm, which has half the customer leakage than its rival, will have double the market base in fourteen years. Or putting it in a different way, if two service firms *intend* to have the same market base but have different customer retention capabilities, they will require different customer acquisition rate or volume. The service firm with better customer retention will need to acquire fewer customers than its rival, suffering less cost and – at the same time fine-tuning to focus on high transaction, high profitability, and low-maintenance cost clientele. It underlines the importance of relationship marketing in such an intangible area as services.

It would be very difficult and impracticable for a service firm to be all things to all people; instead, it should concentrate on those customers who yield maximum profits, by giving them maximum customer satisfaction. This segmentation will help the service firm optimise its limited resources and get better Return on Capital Employed (ROCE). To survive and prosper in the service business, the firm has to map its competencies and capabilities, target profitable customers, and work hard at retaining them.

Customer retention makes business sense. There are evidences through various researches that there is a very strong relationship between customer satisfaction and profitability, just as there is between customer retention (in other words, customer loyalty) and profitability. This is explained in a model called the service-profit chain.



Caselet

### Case: Committees at Work

There is palpable excitement at ITM Business School, Navi Mumbai this academic year. Ranked 25th overall and 5th in the 'Wannabe's List' by Business Today, it is witnessing frenetic activity amongst the freshmen. The all-India profile students have been divided into 20 committees under the catchall concept called 'UTKARSH' (Unleashing the Knowledge and Reaching Starry Heights). The B-school is practically run and managed by these 20 committees. Ideated by its Dean and Director Prof. A K Dasbiswas, and brainstormed amongst his faculty colleagues, some of the scope of UTKARSH includes:

- **Academic** – to check on syllabus and look for continuous up gradation;
- **Placement** – to manage the long drawn out task of interacting with prospecting employers for successful placements;
- **Admission** – to wholeheartedly participate in the entire process of student acquisition;
- **Competitions** – to effectively manage the total participation of students in all prestigious inter-B-school competitions. 2004-05 had been an extremely satisfying year for ITM, having won over ten competitions including the Tata Business Model Contest, IIM Ahmedabad/National Innovation Foundation Business Model Competition for grass roots innovation and having come up to the semi-final contest in the 'Imagine Cup' conducted by Microsoft.
- **Cultural Events** – to organize and participate in cultural events;
- **Code of Conduct** – to oversee the corporate governance inside the campus and amongst the student fraternity;
- **Social Initiatives** – to work and manage social initiative projects like 'ownership' of village uplifting activities;
- **Publications and Journals** – to manage the publications of research and case studies in the institute.

The Infrastructure Committee's mandate is to keep the campus in spick-and-span condition including hostels, classrooms, the quality of drinking water and toilets, etc. The entire campus, with a quadrangle inside has the looks of a modern-day castle (it is an oft-chosen location for film-shoots, like Madhoshi). It bristles with features like Wi-Fi connectivity and India's first simulation lab for financial market analysis. The IT Committee seeks to be the support arm in maintaining the entire networks for the campus.

*Source: Business Today, June 15, 2005*

Notes

**Self Assessment**

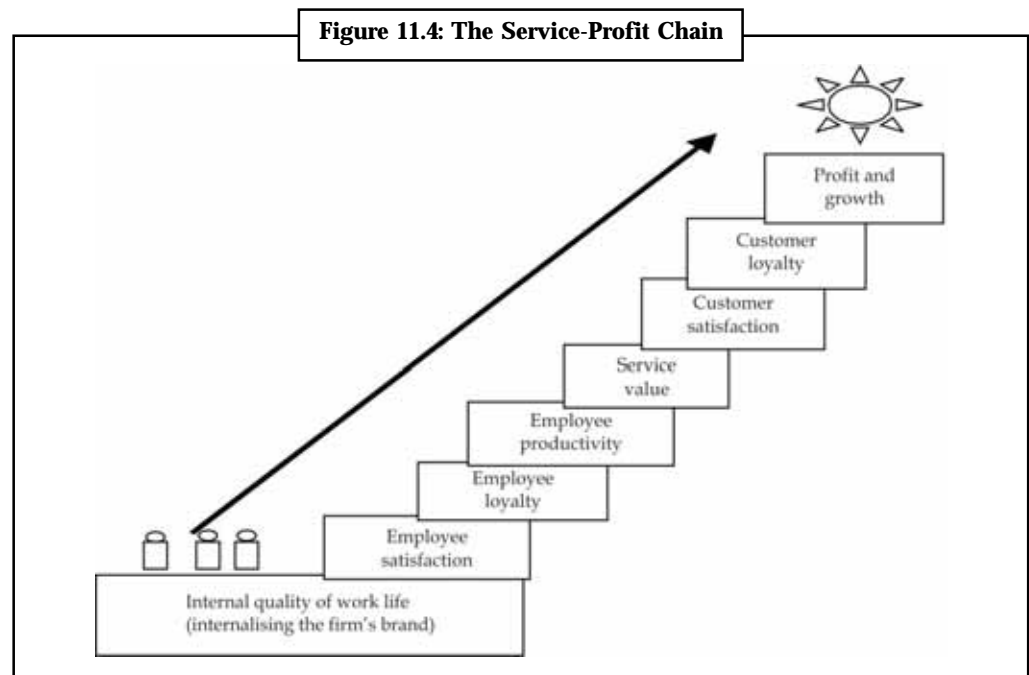
Fill in the blanks:

1. It would be very difficult and impracticable for a ..... firm to be all things to all people.
2. It is more ..... to acquire customers than retain customers. But customer retention becomes a challenge in the era of heightened competition and decreasing customer loyalty.
3. Relationships between them ..... and the service provider keep changing from the time of their acquisition to their retention.
4. A customer's purchase decision of a particular service largely depends on his ..... of the service.
5. Many service firms, placed under ..... and control regimes, did not have customer orientation and instead followed the transactional route, looking for short-term objectives.

**11.4 The Service-profit Chain Model**

The 'service-profit chain' model is based on the following seven theorems (see also Figure 11.4 below):

1. Profit and growth are linked to customer *loyalty*.
2. Customer loyalty is linked to *customer satisfaction*.
3. Customer satisfaction is linked to *service value*.
4. Service value is linked to *employee productivity*.
5. Employee productivity is linked to *employee loyalty*.
6. Employee loyalty is linked to *employee satisfaction*.
7. Employee satisfaction is linked to *internal quality of work life* (internalising the firm's brand).

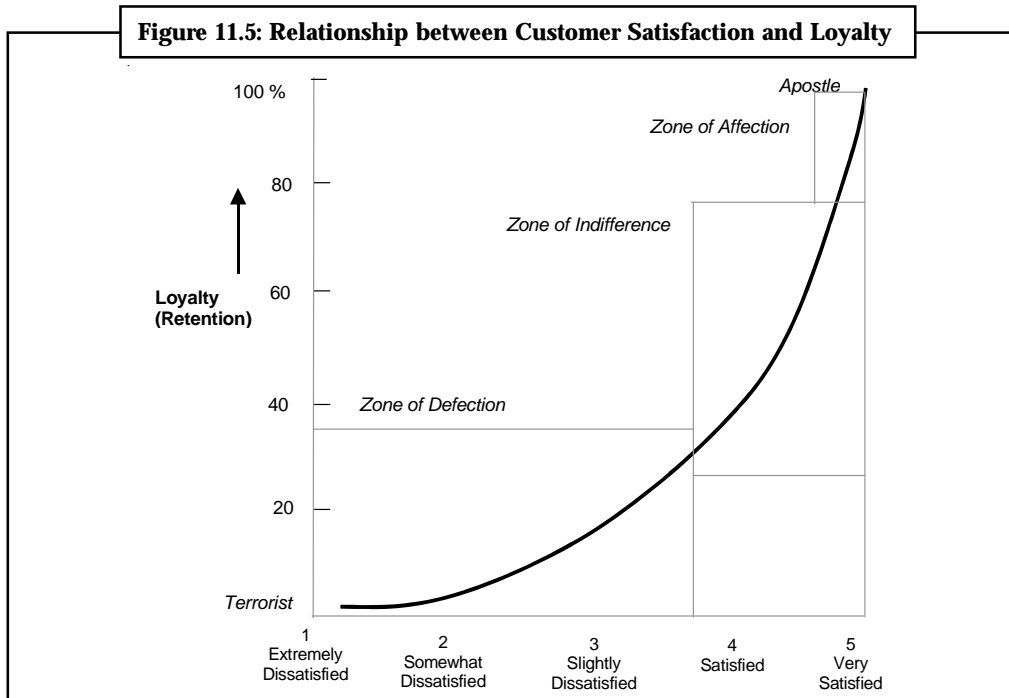




The service-profit chain model has certain limitations that need to be considered before adopting it wholeheartedly. The limitations of this model are:

Notes

- Relationship between satisfaction and loyalty is not always linear (see Figure 11.5)
- The relationship depends on the type of industry. Where the choices for the customer are very high, the relationship is very strong and customer migration is possible; in monopolistic competition (utilities, public transportation, government/public service, etc.), the relationship is weak.



**Source:** James L. Heskett, T.O. Jones, G.W. Loveman, W. Earl Sasser, Jr., and Leonard A. Schlesinger, "Putting the Service-Profit Chain to Work," *Harvard Business Review* (March-April 1994) pp. 164-174.

Benefits of a successful customer retention programme:

1. Customer retention is cheaper than customer acquisition (see *The Leaking Bucket Theory* above).
2. Reduces communication costs for customer acquisitions like advertising and other promotions.
3. Loyal customers tend to do repeat purchase, reducing marketing costs but increasing revenues.
4. Loyal customers tend to avoid substitutes and other competition and perform repeat purchases even if the price of the service is more – increasing revenue and profit.
5. Satisfied customers who metamorphose into 'advocates' or 'apostles' perform the role of unpaid salesmen, promoting the service of their own free will.
6. Repeat customers are less expensive to serve than first time customers, as they are well aware of the offer and do not require customer support, education, guidance and training.

The service firm tends to lose all the future stream of revenues from its banks of loyal customers (who are a profitable segment) if such hitherto loyal customers switch to a competitor. There has been research in the field, which has identified strong relationships between loyalty (retention)

**Notes**

and increase in customer net present value. An increase of 5 percent in retention rate by a service firm increases the net lifetime profits from the customer. A few such instances are given below:

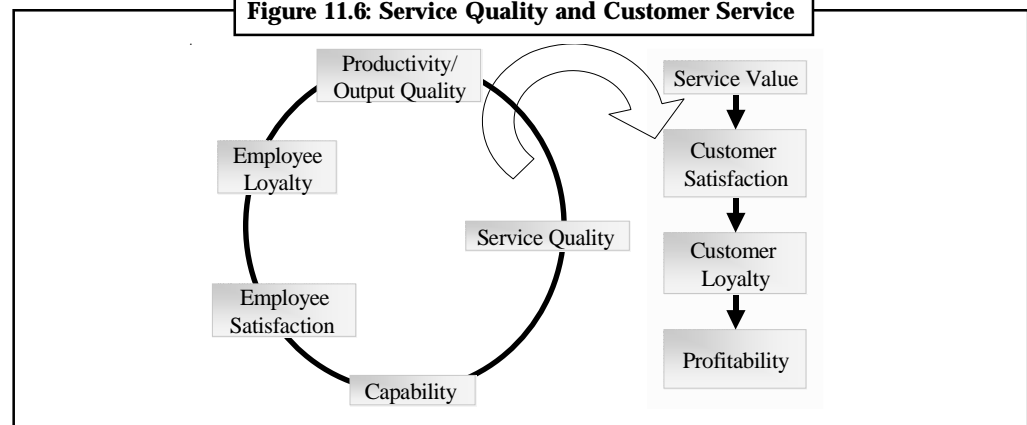
**Table 11.2: Impact of a 5-Percentage Point Increase in Retention Rate on Customer Net Present Value**

S.No.	Industry	Increase in Customer NPV (%)
1.	Software	35
2.	Office building management	40
3.	Industrial laundry	45
4.	Industrial distribution	45
5.	Credit card	75
6.	Auto service	81
7.	Auto/home insurance	84
8.	Branch bank deposits	85
9.	Publishing	85
10.	Life insurance	90
11.	Advertising agency	95

**11.4.1 The Cycle of Capability**

Measuring and maintaining service quality goes on to reduce variability and increase consistency of service delivery and the total capability of the firm. This has an appreciable and positive impact on employee satisfaction, which greatly lowers attrition levels. The higher loyalty factor reduces training costs increasing productivity and the quality of output. The last contribute towards raising the benchmark of performance, the maintenance and up gradation each of which will reflect on its competitive advantages, positioning, brand value and profitability (see Figure 11.6 below).

**Figure 11.6: Service Quality and Customer Service**



**11.5 Customer Loyalty**

*“Customer satisfaction is worthless, customer loyalty is priceless”*. Service marketers have been less preoccupied with creating customers than with retaining them. They have, through trial and error – mostly the latter – sought to increase customer loyalty. It was always the customer who forced them to do more second guessing, and was always one jump ahead. He remained cussed in his attitude, enigmatic in his behaviour and forever demanding.

Satisfaction will measure attitudes, a predominantly transitory, passive, and benign state for a customer, reflecting a relatively low threshold of involvement with a company. Achieving true

advocacy as a result of a customer loyalty program, or other customer-focused efforts and initiatives, means that the customers wholeheartedly believe one or more elements of the scheme have created desired value.

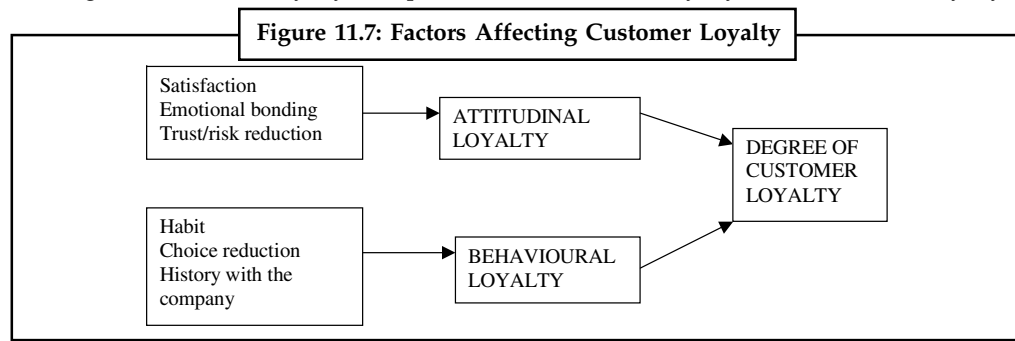
The objective here is to link beliefs, inherent in performance, and the actions and behaviours associated with likely future purchase and recommendation.

The three metrics that are at the heart of any successful loyalty program are:

- Overall performance,
- Likelihood to repurchase,
- Likelihood to recommend.

### 11.5.1 What Affects Customer Loyalty?

The degree of customer loyalty is depend on the attitudinal loyalty and behavioural loyalty.



Features of a successful loyalty scheme

1. Customers must perceive added value.
2. It must be mutually beneficial.
3. It must reward increased spending, e.g. British Airways 'Executive Club' programme, where more spending leads to more privileges.
4. **Communication:** it provides names and addresses of prime customers who can be targeted for future schemes/offers, etc.
5. **Cost:** the cost should be borne by the organisation and not by the customer. However, entry barriers like initial purchase to enter the scheme may exist.
6. **Multi-site:** the scheme/loyalty card must be usable at any branch/anywhere.
7. **Multi-organisation:** one organisation's card usable at another organisation, e.g. British Airport Authority's (BAA) loyalty scheme allows a customer to collect points based on purchase at a wide range of retail and food outlets in the airports controlled by BAA.
8. **Ease of redemption:** the effort required by customers to redeem their rewards for goods should be kept to the minimum. The use of technology can aid this; for example, loyalty cards that are computer readable.

### Self Assessment

State True or False:

6. Companies like Air India and Kingfisher Airlines are more in touch with the customers than the channel members.

**Notes**

7. McDonalds failed initially in India because it failed to judge the customer expectations.
8. You judge an AC by the amount of cooling it does. It relates to the conformance factor.
9. PVR cinemas charge only a minimal amount for their morning shows. This is done to influence customer perceptions through value.
10. Relationship between the employee satisfaction and their loyalty would always be in consonance of each other.

## **11.6 Components of CRM**

CRM consists of three discrete components:

1. Customer,
2. Relationship, and
3. Management.

CRM tries to achieve a 'single integrated view of customers' and a 'customer-centric approach' by judiciously blending these three factors.

**Customer:** The customer is the only source of the company's present profit and future growth. However, a good customer, who provides more profit with less resource, is always scarce because customers are knowledgeable and the competition is fierce. Sometimes it is difficult to distinguish who is the real customer because the buying decision is frequently a collaborative activity among participants of the decision-making process. Information technologies can provide the abilities to distinguish and manage customers. CRM can be thought of as a marketing approach that is based on customer information.

**Relationship:** The relationship between a company and its customers involves continuous bi-directional communication and interaction. The relationship can be short-term or long-term, continuous or discrete, and repeating or one-time. Relationship can be attitudinal or behavioural. Even though customers have a positive attitude towards the company and its products, their buying behaviour is highly situational.



*Example:* The buying pattern for airline tickets depends on whether a person buys the ticket for their family vacation or a business trip. CRM involves managing this relationship so that it is profitable and mutually beneficial. Customer Lifetime Value (CLV) is a tool for measuring this relationship.

A way in which airlines strengthens relationships with their clients and reward their loyal clients is the Frequent Flyer Program. The frequent flyer program is an incentive program operated by an airline to reward customers for their continued loyalty. As a traveller, you earn free miles for the miles that you fly on a particular airline. The concept behind frequent flyer programs is that the airlines want their passengers to become lifetime customers. It is much more costly for the airlines to get new customers than it is to retain the ones they already have. So how do they reward you? The more frequently you fly with them, the greater your awards.

It all started in 1981, when American Airlines introduced a program called Advantage. Their purpose was simple: to reward customers for using the airline and promote future customer loyalty. American started the program by using their customer database. They tracked the members' number of flown miles and put together a reward system of "a mile earned for a mile traveled." To round out the array of services for the travel customer, American also included Hertz rental cars and Hyatt hotel stays in the program. It was an instant success. United Airlines almost immediately debuted their Mileage plus program and upped the ante by offering an

“enrollment bonus” of 5,000 miles! As expected, the other major domestic airlines soon followed suit.

Notes

**Management:** CRM is not an activity only within a marketing department. Rather it involves continuous corporate change in culture and processes. The customer information collected is transformed into corporate knowledge that leads to activities that take advantage of the information and of market opportunities. CRM requires a comprehensive change in the organisation and its people.

CRM extends itself from customer acquisition to customer retention to customer delight. The important steps are:

1. **Identifying the right customer:** The key here is right customer segmentation. Many marketers have failed to realise that the old models and theories of segmentation have to be changed dramatically. The segmentation criteria need to change from conventional demographic/psychographic segmentation to need-based behavioural segmentation.
  - a. This will lead to the right definition of the right target customer. This paradigm shift in segmentation criteria is needed because the conventional segmentation criteria are losing their relevance with the evolution of the customer. Consumer behavioral variables are more relevant and actionable and can help in the right targeting. Hence marketers can develop sustainable business models and can differentiate themselves from others by using high-level consumer behavioural variables.
2. **Retaining the right customer:** It is very important to measure customer profitability. ROC (Return on Customers) should be calculated on at least three dimensions: frequency of customer purchases, value per transaction and profitability.
  - a. Customers who are low on all three dimensions need least focus, whereas customers scoring high on all the three need maximum focus. The customers lying between the two extremes need to be carefully analysed to decide the degree of focus required for each of the segments.
  - b. Marketers need to lay down systems and processes (which can be very simple formats and not necessarily require capital-intensive ERP systems) to keep track of these dimensions. Identification and sizing of these clusters can help develop the right strategies for each customer group.
3. **Delighting the customer:** Many marketers lose bottom-line focus in their efforts to please the customer and may inadvertently erode business profitability. Marketers need to develop strong value propositions in terms of better products and better services so that strategies are not only customer-centric but also lead to high profitability. Pleasing the customers should not be at the cost of hurting the company’s bottom line.

#### Box 11.1: Software Supporting Management Process

Specific software to support the management process involves:

1. Field service,
2. E-commerce ordering,
3. Self-service applications,
4. Catalogue management,
5. Bill presentation,
6. Marketing programs
7. Analysis applications.

**Notes**

All these techniques, processes and procedures are designed to promote and facilitate the sales and marketing functions

Specific software to support the management process involves:

1. Field service,
2. E-commerce ordering,
3. Self-service applications,
4. Catalogue management,
5. Bill presentation,
6. Marketing programs
7. Analysis applications.

All these techniques, processes and procedures are designed to promote and facilitate the sales and marketing functions.

### 11.6.1 CRM Business Cycle

#### Acquisition and Retaining

Acquisition is a vital stage in building customer relationship. For the purpose of customer acquisition, an organisation is likely to focus its attention on prospects, enquiries, lapsed customers, former customers, competitor's customers' referrals and the existing buyers.

#### Understand and Differentiate

Organizations cannot have a relationship with customers unless they understand them, find out what they value, what types of services are important to them, how and when they like to interact and what they want to buy. True understanding is based on a combination of detailed analysis and interaction.

Several activities are important:

- Profiling to understand demographics, purchase patterns and channel preference.
- Segmentation to identify logical unique groups of customers that tend to look alike and behave in a similar fashion. While the promise of one-one marketing sounds good, not many organisations have mastered the art of treating each customer uniquely. Identification of actionable segments is a practical place to start.
- Primary research to capture needs and attitudes.
- Customer valuation to understand profitability, as well as lifetime value or long-term potential. Value may also be based on the customer's ability or inclination to refer other profitable customers.

Customers need to see that the company is differentiating between service and communications based on what they have learned independently and on what the customers have told them.



*Note* The organisations need to acquire customers and prospective customers and retain valuable customers.

## Develop and Customise

## Notes

In the product-focused world of yesterday, companies developed products and services and expected customers to buy them. In a customer-focused world, product and channel development have to follow the customer's lead. Organizations are increasingly developing products and services, and even new channels based on customer needs and service expectations.

Commercialization is a stage in product development process where the decision to order full-scale production and launch is made. Commercialisation is the process or cycle of introducing a new product into the market.



*Caution* Once the service is developed, it has to be introduced into the market.

## Interact and Deliver

Interaction is also a critical component of a successful CRM initiative. It is important to remember that interaction does not just occur through marketing and sales channels and media; customers interact in many different ways with many different areas of the organisation, including distribution and shipping, customer service and online. With access to information and appropriate training, organisations will be prepared to steadily increase the value they deliver to customers.

### 11.6.2 Customer Relationship Analytics

There are different analytical aspects of Customer Relationship Management which are as follows:

#### The Bottom Line of CRM: Know Your Customer

CRM was practiced by businesses long before CRM technology came along.

Companies now rely on databases and automated tracking tools to track needs of customers. Operational and collaborative CRM covers the nuts and bolts of this process – interacting with customers, managing the process and sharing actions with various channels and trading partners. Analytical CRM integrates customer data coming in from various channels into a single system to provide a decision-making platform. Such channels include the various components of CRM systems – call centers, customer service automation, marketing automation and sales automation.

The new model focuses on an integrative approach with one single program that covers ERP functions, sales automation, service management and marketing automation capabilities rather than using individual systems as was done in the past.



*Did u know?* CRM itself is not a technology, but a process of gathering and retaining information about customers and their interactions with your company.

## Returns

Implementing CRM systems tends to be a complicated and expensive endeavor. While money is being spent on CRM initiatives, many companies have not been able to figure out what kind of return on investment they are getting with their systems, beyond anecdotal evidence. Add to

**Notes**

this uncertainty the risk of failure of a CRM program, and you get an idea of the managerial trepidation involved in the process, till it starts manifesting tangible returns.

The problem is that almost half of all planned CRM implementations are based on technology initiatives alone, and fail to address metrics, behaviours and processes. While many of today's database and CRM systems do a good job of capturing customer data, they can't make the data meaningful or enhance customer relationships by themselves.

**Bringing Knowledge into the Equation**

Customer relationship analytics – sometimes also called analytical CRM – makes sense of the mounds of data collected in CRM systems, databases and transactions. In many cases, if the data is available, no CRM system is even needed to develop a robust analysis of one's customers. Customer relationship analytical tools can provide a 360-degree view of customers, helping a marketer understand what customers are telling him, who they are, what they need, and more importantly, what they may do in the future.

These systems enable fact-based decision-making based on hard data, rather than on anecdotal evidence.

**Business Drivers**

How can a business benefit from customer analytics? Simply put, and as seen earlier, it is far cheaper to retain and satisfy one's current customers than to acquire new ones.

However, it is not profitable to try to hang on to every customer. Some customer segments buy in low volumes, while others have high service requirements or high return rates. Customer-relationship analytics will help distinguish whether customers are part of high-profit or high-maintenance segments.

Customer-relationship analytics take on the role of a highly sophisticated marketing department. These tools identify your most valuable customers, group these customers based on purchasing behaviour and other attributes, and target them with promotions and sales efforts designed to increase customer loyalty and sales revenue. By understanding the relative value of each customer, you can then focus sales and marketing efforts on the most profitable segments. Customer relationship analytics can impact the company's overall bottom line as well.

Recent research by accenture finds a direct correlation between customer relationship analytics and business revenues. More the increase in CRM performance more is the incremental revenue to the business. Accenture's research examined specific CRM initiatives that can directly enhance revenues. They discovered that the top three initiatives having the greatest impact on the bottom line include fostering high levels of customer service, encouraging strong employee motivation, and turning customer information into insight, i.e. analytics. The highest-performing companies give their frontline employees quick, easy access to critical data – purchases, contact history and product inquiries, as well as demographic and lifestyle data. They also observed that successful companies share this same analytic information with trading partners across the supply chain.

Significantly, these successful CRM companies did not view CRM as an IT project relegated to a specific department. Rather, they viewed CRM as an enterprise-wide initiative. Most CRM implementations have been fragmented, implemented within departments without a cross-organisational perspective.

Customer-relationship analytics need to be shared at all levels across the organisation. Inside and in the field, sales personnel could then see higher levels of qualified customers, lower costs of sales, and more sales closed. Marketing can then be able to track responses and predict results



to particular promotions or campaigns among targeted customer segments. Customer-service staff would then be able to deliver higher levels of support and customer satisfaction.

Notes

### Customer-analysis Solutions

Customer Relationship Analytics (CRA) should enable companies to ensure that their most profitable customers remain satisfied and that sales and marketing efforts are aimed at retaining good customers and attracting the right prospects.

Customer-Relationship Analytics should include several analytical views addressing the areas of:

- Customer value assessment, for examining customer – and channel – value from multiple perspectives, such as lifetime sales, gross margin contribution, and by factors that affect profitability such as discounts, freight and handling, and average selling price.
- By understanding the relative value of each customer, companies can begin to focus sales and marketing efforts on the most profitable customers and those with the most profit potential.
- Customer acquisition and targeted selling, for additional profiling, segmentation and ranking of customers based on the propensity to buy, order frequency, and overall purchasing behaviour.
- With this, businesses can apply specialised metrics to segment customers and then build specific promotions or sales efforts around select customer-groups.
- Customer management, for understanding the impact of order fulfillment, returns and call-centre activity on actual sales performance. This will allow companies to review year-to-date sales and revenue and problems reported by customers to identify correlations and better understand how customer service issues are impacting profits.



*Did u know?* Customer-analysis solutions should allow companies to adopt a more customer-centric approach to doing business, through in-depth analysis and grouping of customers based on purchasing behaviour, future marketing opportunities and customer service levels.

Additionally, analytics could also be used to measure:

- Sales Performance Management;
- Marketing Performance Management;
- Manufacturing Performance Management;
- Procurement Performance Management;
- e-Business Performance Management;
- Customer Relationships and
- Activity Cost Management.

### Technology Drivers

A formal CRM technology solution is not required to implement a customer- relationship analytics program. What is required is some level of integration between customer-facing applications – such as call-centre or web systems – and back-end systems. Front office systems providing data pertaining to customer transactions and inquiries can be matched up with back-end financial systems that have records of customer credit and invoices. In addition, many

**Notes**

companies already have components of CRM systems, such as sales automation systems that record customer-contact information. Data can come from a variety of sources — call centers, point of sale transactions, web click stream data, back-end databases, and even faxes and phone records. Data from these channels is integrated into a customer-oriented data mart or data warehouse, a knowledge base that continuously captures customer data. While some integrated CRM solutions do provide this capability, companies still need the tools that will take this composite data and paint a picture about their customers. Companies like Siebel, PeopleSoft, SAP, Pivotal, Oracle, and Sales Logix provide software on CRM.

A customer-relationship analytics system is a set of tools that are run against this data to perform business intelligence functions — reporting, analysis and data mining. Such tools can help marketers visualise, through online graphics, patterns and relationships in customer behaviour and trends. A number of variables can be measured through this data analysis engine, including net profitability, return patterns and order-fill rates.



*Example:* A company may find that a particular customer segment to which it has been aggressively marketing also has a high return rate for products – thereby diminishing the profitability of this effort. It may also find that its best customers are being treated the worst because it is not able to find out who its best customers are and may not be able to judge the level of attention their business merits.

To have a successful impact on your CRM program, an analytics system needs to be speedily speedy accessible, and user-friendly. While customer-relationship analytic systems may employ sophisticated tools running against data stored on high-end systems, it is important that the end-results are user-friendly and accessible. If end-users have difficulty using a system, or cannot pull up the data they need within a few seconds and navigate down through the information toward a solution, they will abandon the application and its benefits will not be realized. In fact, this historically has been the main reason for the failure of sales force automation systems over the years – sales representatives, usually too focused on the business at hand, refused to find the time to learn to use what they perceived as a difficult or cumbersome system.

The solution might be to have highly-skilled analysts who use complex statistical tools for their analyses. The sales force will receive results of the analyses in a business-focused presentation that addresses the implications for each action.

Many companies are removed from their end-users because they sell through third-party distributors and retailers. For these companies, customer-relationship analysis can look at various data feeds and provide a valuable picture of customer trends.

### **Importance of Customer-relationship Analytics**

Customer-relationship analytics is part of a growing effort to apply measurable and actionable analytics to key parts of the business. Business performance management applications now cover a range of key performance indicators, including sales, marketing, finance and manufacturing. The ability to apply analytics to customer relationship management opens up opportunities to dramatically improve these relationships. In today's highly competitive environment, businesses need to better understand their customers, which ones are the most profitable, and how to best retain those customers. Though companies are investing millions of dollars in CRM systems, they are only generating data and failing to tell the company what the data means. Customer-relationship analytics helps companies make sense of customer needs, help companies manage these relationships more intelligently and help predict the future. Such knowledge provides a crucial competitive differentiation for companies seeking to gain market share and reduce operational costs.

### 11.6.3 Lifetime Value of a Customer

Notes

A fundamental concept of Customer-relationship Management is the lifetime value of a new customer. The basic idea is that customers should be judged on their profitability to the firm over the total time they make purchases. Profitability is usually based on net value, that is, the mark-ups over cost less the cost of acquiring and keeping the customer. Fixed costs are not considered because it is assumed that these costs will be incurred with or without the particular customer.

This presents a simple method of doing the calculations. It is based on the average customer and does not consider the time value of money or the effects of marketing actions such as loyalty programs and referral programs.

#### Approach

The simplest approach to lifetime value is to compute the average net revenue by multiplying four quantities together:

Avg. sale \* No. of purchases/year \* Stay of customer \* Average Profit %



*Example:*

Consider a stationery store serving small corporate clients: Average sale – ₹ 2,000

Number of purchases/year – 2

Expected length of customer stay (years) – 3

Average profit margin – 24%

Thus the Lifetime net revenue: ₹ 2,880

Having the net revenue, the lifetime value can be determined by subtracting acquisition and retention costs:

Lifetime value = Lifetime revenue – Cost to acquire – (Cost to retain × No. of purchases) If, for example, the allocated cost to an acquired customer from an advertisement is ₹ 500 and the cost to retain the customer for each purchase after the first one is ₹ 20 then:

Net lifetime value of customer = 2880 – 500 – (20 × 5) = ₹ 2,280

Three strategies can be followed to increase the value of the customer:

1. Increase size of average sales (tie-ins, package multiple items).
2. Increase the number of sales (find other customer-needs you can provide and satisfy them with).
3. Increase profit margin (reduces overhead costs, reduce cost of goods and raise price if market will stand it).

A more sophisticated calculation would probably include retention rates (per cent of customers who buy again), discount rates, effect of loyalty programs, average annual purchase per customer (including increasing number of sales and increasing amount per sale to retained customers), mark-up of goods, cost to obtain a new customer, cost per year to maintain a customer, cost to obtain customers through referrals, risk factor (that the customer will not pay), delay between order and payment (i.e., the account receivable days), repurchase cycles, etc.

All of these considerations would need to be factored in a lifetime value model depending on the industry and company where CRM is to be implemented.

### 11.6.4 Opportunities in CRM

Earlier when service organisation's large projects concentrated on Main Frames, ERP, MRP and SCM systems, excessive customer orientation has changed focus to customers resulting in emergence of Customer Relationship Management (CRM) applications. CRM helped the service organisations in improving efficiency and hence, providing better services to customers. CRM is now one of the main tools for surviving in the competitive market by focusing on customer needs. To help achieve this, there were many CRM solutions that came out in market. Such solutions included generic CRM solutions focused on sales and services to industry specific solutions that embedded the best practices for those industries. Such solutions helped software developers and software vendors in generating large revenues in terms of sales and implementation of such applications.

Now most of the large organisations have opted, implemented and more or less stabilized one or another application with its core and customized CRM functionality. This article explores further opportunities that are available in CRM Market.

**Enterprise Application Integration (EAI):** Once a CRM solution is implemented, the Organization needs to focus on integrating it with other applications. There are diverse applications and technologies used in an organisation that need to interact with each other. Integrating such applications will help in sharing business critical data and help improve in better business efficiency by reducing the time that is required to spend on gathering and sharing such information. This brings out the opportunity of Application to Application (A2A) and Business to Business (B2B) integration using EAI strategies like Point to Point, Hub and Spoke and Distributed Messaging.

**Upgrade:** There are many large organisations that have heavily customised CRM solutions which they have continued using for years. There are new/latest versions of such applications available. As of now there are many CRM solution providers who are supporting old versions of their application, but how long is a question. Once those organisations decide to upgrade or move to later/latest versions of the application, this will open up new market.

**Hosted Solutions:** There are many small organisations that neither have capacity nor infrastructure to buy and implement CRM solution. Such small organisations will prefer to opt for hosted solutions and pay based on the usage.

**Redesign the wheel instead of reinventing it:** new technology architecture changes like Service Oriented Architecture is requiring redesigning of the CRM solution architecture. This has opened up new market for software vendors and system integrators.

**Small and Medium Enterprise (SME):** Although CRM solutions have been implemented by most of the large organisations, SME segment is still vastly open and lot of potential to be capitalised.

### 11.6.5 Data Mining and Technology

Data mining is the process of analysing data from different perspectives and summarising it into useful information – information that can be used to increase revenue, cuts costs, or both. It is sometimes called data or knowledge discovery. Data mining software allows users to analyse data from many different dimensions or angles, categorize it, and summaries the relationships identified. Technically, data mining is the process of finding correlations or patterns among dozens of fields in large relational databases.



*Note* Data mining software is one of a number of analytical tools for analysing data.

Although data mining is a relatively new term, the technology is not. Companies have used powerful computers to sift through volumes of supermarket scanner data and analyse market research reports for years. However, continuous innovations in computer processing power, disk storage, and statistical software are dramatically increasing the accuracy of analysis while driving down the cost.



*Example:* One Midwest grocery chain used the data mining capacity of Oracle software to analyse local buying patterns. They discovered that when men bought diapers on Thursdays and Saturdays, they also tended to buy beer. Further analysis showed that these shoppers typically did their weekly grocery shopping on Saturdays. On Thursdays, however, they only bought a few items. The retailer concluded that they purchased the beer to have it available for the upcoming weekend. The grocery chain could use this newly discovered information in various ways to increase revenue. For example, they could move the beer display closer to the diaper display. And, they could make sure beer and diapers were sold at full price on Thursdays.

Data mining products are taking the industry by storm. The major database vendors have already taken steps to ensure that their platforms incorporate data mining techniques. Oracle's Data Mining Suite (Darwin) implements classification and regression trees, neural networks, k-nearest neighbors, regression analysis and clustering algorithms. Microsoft's SQL Server also offers data mining functionality through the use of classification trees and clustering algorithms. If you're already working in a statistics environment, you're probably familiar with the data mining algorithm implementations offered by the advanced statistical packages SPSS, SAS, and S-Plus.



*Task* Discuss the factors influencing customer retention.

## Self Assessment

Fill in the blanks:

11. A service firm services its customer really well and it works on the principle of current satisfaction maximisation. This firm might be suffering from .....
12. A service firm is losing its customers to competitors, but can't find out the exact reasons for their switch over. In this situation ..... can some their rescue.
13. Insurance companies have a variety of plans for young kids and advertise it using emotional appeal. This relates to ..... dimension of customer expectations.
14. According to some theorists, acquiring new customer is ..... times expensive than retaining existing customers.
15. Managing the customers well and giving them more than what they expect results in customer .....

Notes

Notes



Case Study

**Case: ICICI Bank**

**B**anking differs from other industries by degree, scale and scope of relationship between a customer and his bank – on an average, it lasts much longer. For example, in the auto industry, the relationship between the customer and the company is becoming weaker over time – with no need felt by the customer to contact the car dealer or manufacturer frequently. It is possible to change the car's oil or get its maintenance done from different service stations. However, once an account is in a specific bank, the relationship or dependence on the bank increases and endures.

A certain research done in England found that the resistance to changing of banks in spite of bad service encounters was high. You may write cheques more frequently, have direct deposit, transfer money, pay bills and withdraw money. The bank contacts you regularly by sending you your monthly statement. You can obtain a credit card or investment advice from the bank.

ICICI Bank is one of the leading Indian banks that transformed these relationships into opportunities. It was one of the first banks to start a 24-hour phone banking service and opened branches in many new areas and set up ATMs at strategic locations. ICICI Bank always tried to provide more touch points to its customers and a one-stop banking environment.

Since 1998, ICICI Bank tried to integrate all of its back-end customer information into its Customer Relationship System. Previously, customer information was managed by several different back-end systems. Software enabled the account numbers to be organized, with each back-end system using its own numbering system. Customer service agents found it difficult to integrate customer information when they received a request to transfer from one account to another. They had to log on to several different systems to obtain the information and do the transactions requested. In the new system, the service agent could access all required information by using the customer's central account number instead of individual account numbers. These changes increased convenience for both customers and service agents.

ICICI Bank also provides Internet banking. It built a website as a new contact point and provided advanced technologies to its customer. By using online banking, customers could manage their account anytime and anywhere. Online banking also saves the operating cost of bank branches.

ICICI Bank recently launched Corporate Care – a complaint-and-query resolution system for ICICI Bank's corporate clients. This was a system to ensure resolution of all queries online so that no queries are left unresolved. This also enabled maintenance of online records for the same. The system reduced turnaround time for resolution and also reduced the number of calls directed at the branches for queries.

***The Project was Rolled out in Two Phases***

Phase I involved select clients to be a part of the pilot program to provide feedback on the effectiveness of the system as well as effectiveness of the users, i.e. the employees of ICICI Bank who were either directly or indirectly handling the system. The objective was to collect data regarding effectiveness of the system in order to get an idea of improvements that could be made to increase efficiency.

*Contd...*

## Notes

This data was incorporated in the nationwide launch that constituted Phase II. After ironing out any issues that arose in Phase I, Phase II was implemented, making for a successful system that handles queries of corporate clients cost-effectively and satisfactorily.

In the future, ICICI Bank seeks to build online customer communities (similar to the World Wide Web) in its banking service by responding to customers' needs with new technologies. By providing its customers more power to manage their account and money, ICICI Bank expects to increase customer loyalty and obtain long-term mutual benefits from its customers.

**Question:**

Analyse for ICICI Bank the drawbacks of overt dependence on IT for building customer relationships. How much of permission marketing is required?

**11.7 Summary**

This unit attempts to give an overview of the functions in as simple manner as possible.

- The studies of the services environment factors would include the political, economic, socio-cultural, legal and technological, etc. This analysis would give the service manager a guiding template for doing business.
- Expectations make a customer perceive the received offer in a judgmental mode. This is due to the intangibility factor of the service offer. Variance between the expected offer and the service receipt will generate 'problems', dissatisfaction, etc.
- A customer's purchase decision of a particular service largely depends on his perceptions of the service. Therefore, it is necessary for service organisations to conduct a research to know the factors that influence customer perceptions.
- Service organisations should understand that service encounters play a crucial role in satisfying or dissatisfying customers. To increase the satisfaction level of customers during service encounters, service organisations should innovate ways of delivering their service.
- A service organisation should not only communicate its promises clearly but should also ensure that it keeps its promises. This will create a positive image of the company in the eyes of its customers.
- CRM is a business strategy that goes beyond increasing transaction volume. Its objectives are to increase profitability, revenue, and customer satisfaction. To achieve CRM, a company-wide set of tools, technologies, and procedures promote the relationship with the customer to increase sales.
- It is more expensive to acquire customers than retain customers. But customer retention becomes a challenge in the era of heightened competition and decreasing customer loyalty. Various researches point out to the fact that customer acquisition is five to ten times more expensive than customer retention.
- Service profit model is based on seven theorems, which says that customer loyalty is linked with customer satisfaction and employee loyalty with employee satisfaction. But it has been criticised by some on the grounds that the relation between satisfaction and loyalty is not always linear.
- CRM is not an activity only within a marketing department. Rather it involves continuous corporate change in culture and processes. The customer information collected is transformed into corporate knowledge that leads to activities that take advantage of the information and of market opportunities.

**Notes**

- Customer-relationship analytics take on the role of a highly sophisticated marketing department. These tools identify your most valuable customers, group these customers based on purchasing behavior and other attributes, and target them with promotions and sales efforts designed to increase customer loyalty and sales revenue.
- A fundamental concept of Customer-relationship Management is the lifetime value of a new customer. The basic idea is that customers should be judged on their profitability to the firm over the total time they make purchases.

### **11.8 Keywords**

***Aesthetics:*** Measure of the product's looks, design, touch and feel.

***Chinese Whisper:*** Information passed from one to another

***Conformance:*** Delivery quality meeting design standards.

***CRM:*** Managing of prospects all the way through the entire sales process and after

***Customer Relationship Analytics:*** Set of tools to perform reporting, analysis and data mining.

***Empathy:*** Relates to caring, feeling as well as the ability to give personalized service.

***ERP:*** Helps a manufacturer or other business manage the important parts of its business

***Marketing Myopia:*** Short sighted and inward looking approach to marketing

***Marketing Research:*** Identifying, collecting data on the market and translating into information

***Service Profit Chain:*** Measures relationship between loyalty, satisfaction and profitability

### **11.9 Review Questions**

1. Using a service company's loyalty scheme of your choice, critically assess its overall value to the company in developing profitable business.
2. Explain the Six-Market Model and its importance for an educational institution or a university.
3. Explain how the Relationship Ladder might work for a Five Star Deluxe Hotel in its corporate marketing and management.
4. Mr. Vijay Mallya has been openly ambitious about his new brand extension, Kingfisher Airlines. Your company has been appointed as his marketing and operations consultant. Advise how the 'Service-Profit Chain' concept can be applied fruitfully for Kingfisher Airlines.
5. Explain – using the 'Leaking Bucket Theory' – the statement: "Customer retention is cheaper in the long run than customer acquisition".
6. How would you use 'The Cycle of Capability' in a public sector bank for enhanced effectiveness and efficiency?
7. Make a credible linkage between customer loyalty and relationship marketing in services. How can a department store use it?
8. Is relationship marketing a new business idea, or just traditional practices applied in a new context?
9. Critically assess methods used by travel agencies to develop ongoing relationships through their personal customers.



10. To what extent should a services organisation ensure that the style of exchange adopted with respect to its customers is similar to that adopted in relation to its employees?
11. If relationship marketing is a natural evolution from services marketing, what do you think may be the next basis on which firms develop a competitive advantage?
12. Define what is meant by customer loyalty in the context of insurance services.

Notes

### Answers: Self Assessment

1. Service
2. Expensive
3. Customer
4. Perceptions
5. Monopoly
6. False
7. True
8. False
9. False
10. False
11. Marketing Myopia
12. Marketing Research
13. Empathy
14. Five
15. Delight

### 11.10 Further Readings



Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, Third Edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, The Free Press



Online links

[http://www.ocba.sa.gov.au/assets/files/21\\_custservice10.pdf](http://www.ocba.sa.gov.au/assets/files/21_custservice10.pdf)

[http://highered.mcgraw-hill.com/sites/dl/free/0073397113/884629/Luc97113\\_ch02\\_038\\_075.pdf](http://highered.mcgraw-hill.com/sites/dl/free/0073397113/884629/Luc97113_ch02_038_075.pdf)

## Unit 12: Creating a Service Culture

### CONTENTS

Objectives

Introduction

12.1 Creating a Service Culture

12.2 Management Areas of Maintaining the Service Culture

12.3 Elements of a Service Culture

12.4 Twelve Strategies for Promoting a Positive Service Culture

12.5 Summary

12.6 Keywords

12.7 Review Questions

12.8 Further Readings

### Objectives

After studying this unit, you will be able to:

- Elaborate the concept of service culture
- Explain the role of elements of service culture
- Discuss the management of areas of maintaining a service culture
- Describe the various strategies of positive service culture

### Introduction

What is a **service culture** in an organisation? The answer is that it is different for each organisation. No two organisations operate in the same manner, have the same focus, or provide management that accomplishes the same results. Among other things, a culture includes the values, beliefs, norms, rituals, and practices of a group or organisation. Any policy, procedure, action, or inaction on the part of your organisation contributes to the service culture. Other elements may be specific to your organisation or industry. The latter element is crucial in your success and that of your organisation. As a service provider, if you take a job just to have a paycheck without buying into the service culture and supporting the goals of the organisation, both you and the organisation will lose. For you to be successful in the service industry (or any other for that matter) you must take ownership of your roles and responsibilities and show commitment to doing the best you can every day that you go to work. Even further, you must project a positive attitude when you are not at work as well.

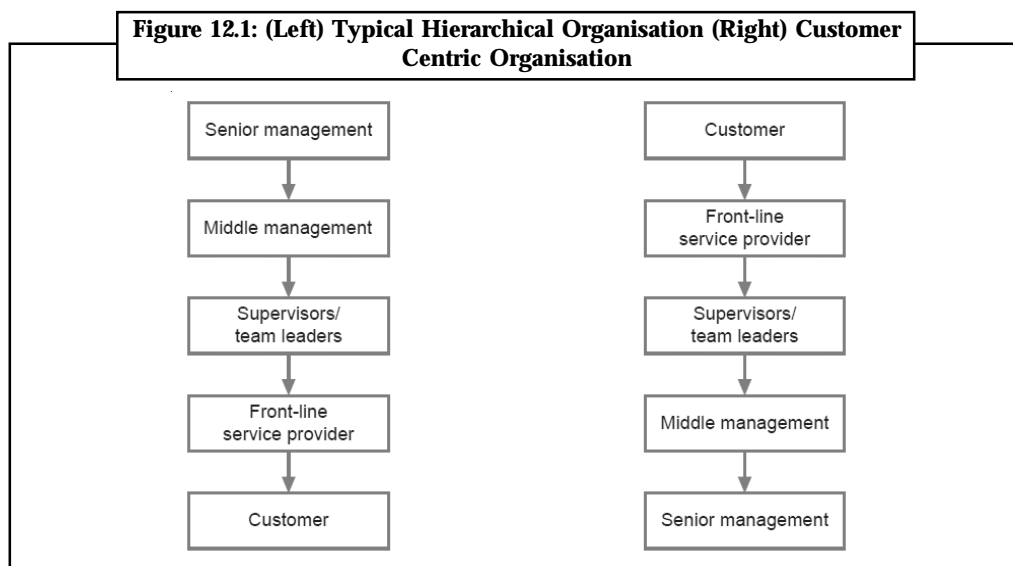
Think about the number of times you have heard friends “bad mouth” their boss, organisation, products and services. Did their attitude toward their job inspire you to want to patronise their workplace or apply for a job there? What you do or say around others in any environment sends a powerful message about you, your level of professionalism and your organisation. If you cannot support your employer; quit and find a job where you can. To do less is being unfair to yourself and your organisation. Remember that if the organisation loses money because of poor word-of-mouth publicity (things you and others say about it), there will be fewer customers. This will result in lowered revenue and money available to provide employee salary increases and benefits.

## 12.1 Creating a Service Culture

Notes

Culture also encompasses your products and services, and the physical appearance of the organisation's facility, equipment, or any other aspect of the organisation with which the customer comes into contact. Unfortunately, many companies are top-down-oriented (with upper management at the top of their hierarchy and customers as a final element or afterthought) or product-centered and view customers from the standpoint of what company products or services they use (Figure 12.1). Successful organisations are customer-centered or customer-centric and focus on individual needs (Figure 12.2).

An organisation's service culture is made up of many facets, each of which affects the customer and helps determine the success or failure of customer service initiatives. Too often, organisations overpromise and under deliver because their cultural and internal systems (infrastructure) do not have the ability to support customer service initiatives.



**Example:** Suppose that management has the marketing department develop a slick piece of literature describing all the benefits of a new product or service provided by a new corporate partner. Then a special 800 numbers or web site is set up to handle customer responses, but no additional staff is hired to handle the customer calls or current service providers are not given adequate information or training to do their job. The project is likely doomed to fail because adequate service support has not been planned and implemented.

In the past, organisations were continually making changes to their product and service lines to try to attract and hold customers. Often this has been their primary approach to customer satisfaction. Now, many major organisations have become more customer-centric and stress relationships with customers. They realise that it is cheaper, and smarter, to keep current customers rather than subscribe to a revolving door approach of continually trying to attract new customers to replace the ones that they lost to competitors. Advertising campaigns often reflect this new awareness as companies try to communicate that they are focused on their customers. The following are some familiar slogans used by companies in their promotional materials:

*"Like a good neighbor"* — State Farm Insurance

*"When you're here, you're family"* — Olive Garden Restaurants

**Notes**

*"You're in good hands"* — Allstate Insurance Company

*"It's your store"* — Albertsons Grocery Stores

*"We'll leave the light on for you."* Motel 6

*"Think what we can do for you."* Bank of America

**Self Assessment**

Fill in the blanks:

1. In the past, ..... were continually making changes to their product and service lines to try to attract and hold customers.
2. Culture also encompasses your products and services, and the ..... of the organisation's facility, equipment, or any other aspect of the organisation with which the customer comes into contact.
3. Unfortunately, many companies are ..... or product-centered and view customers from the standpoint of what company products or services they use.
4. Any policy, procedure, action, or inaction on the part of your organisation contributes to the service..... .
5. An organisation's service culture is made up of many facets, each of which affects the customer and helps determine the ..... of customer service initiatives.

**12.2 Management Areas of Maintaining the Service Culture**

It includes the following points:

- Creating a customer service environment across your whole business that is specifically aligned with your customers' needs and focuses on customer retention.
- Having and actively following a customer service charter which clearly sets out the quality and standards of service your customers can expect from you.
- Ensuring that your business's policies, practices, systems, rules, facilities and staff actively provide for excellent customer service delivery.
- Integrating your customer service strategy into your overall business approach and plans.
- Creating a structure and culture that enables high levels of staff satisfaction, and rewards staff for their ability to deliver excellent customer service.
- Ensuring you has mechanisms in place to obtain regular, reliable feedback from your customers about their needs and your service.
- Actively encouraging quality service and continuous improvement in everything your business does.
- This requires ongoing examination of the underlying causes which create or tolerate service problems and changes in practices which created the problems.
- Ensuring your business always complies with fair trading laws as a natural complement to best practice customer service.

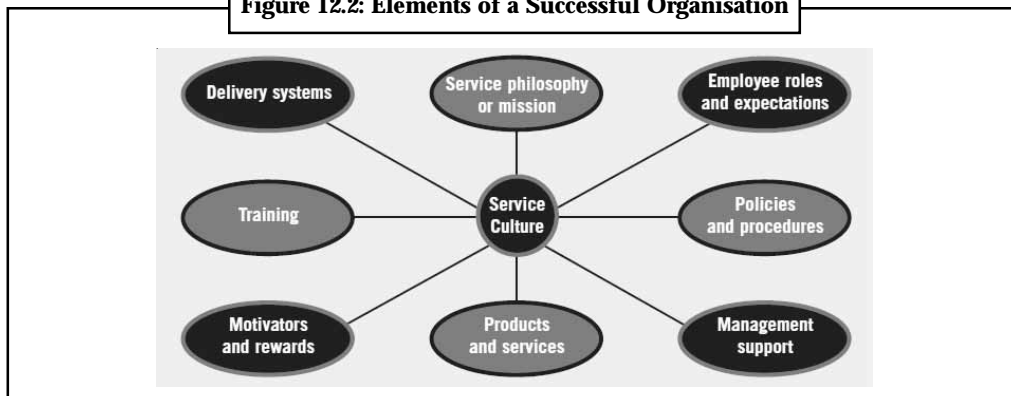
## 12.3 Elements of a Service Culture

Notes

There are various elements which makes an organisation successful as follows:

- **Service philosophy or mission:** The direction or vision of an organisation that supports day-to-day interactions with the customer.
- **Employee roles and expectations:** The specific communications or measures that indicate what is expected of employees in customer interactions and that define how employee service performance will be evaluated.
- **Delivery systems:** The way an organisation delivers its products and services.
- **Policies and procedures:** The guidelines that establish how various situations or transactions will be handled.

Figure 12.2: Elements of a Successful Organisation



- **Products and services:** The materials, products, and services that are state of the art, competitively priced, and meet the needs of customers.
- **Management support:** The availability of management to answer questions and assist frontline employees in customer interactions when necessary. Also, the level of management involvement and enthusiasm in coaching and mentoring professional development.
- **Motivators and rewards:** Monetary rewards, material items, or feedback that prompts employees to continue to deliver service and perform at a high level of effectiveness and efficiency.
- **Training:** Instruction or information provided through a variety of techniques that teach knowledge or skills, or attempt to influence employee attitude toward excellent service delivery.



*Did u know?* A key point to remember about service culture is that you play a key role in communicating the culture of your organisation to your customers. You may communicate through your appearance, your interaction with customers, and your knowledge, skill, and attitude.

### Self Assessment

6. Match the following terms:

#### Set A

1. The materials, products, and services that are state of the art, competitively priced, and meet the needs of customers.

**Notes**

2. Monetary rewards, material items, or feedback that prompts employees to continue to deliver service and perform at a high level of effectiveness and efficiency.
3. The way an organisation delivers its products and services.
4. The direction or vision of an organisation that supports day-to-day interactions with the customer.
5. The guidelines that establish how various situations or transactions will be handled.

**Set B**

- (a) Motivators and rewards
- (b) Policies and procedures
- (c) Products and services
- (d) Service philosophy or mission
- (e) Delivery systems

### **12.4 Twelve Strategies for Promoting a Positive Service Culture**

1. **Explore your organisation's vision.** By working to better understand the focus of the organisation and asking yourself, "What's the added value and results for me?" (AVARFM), you can develop your own commitment to helping make the organisation successful. An example of AVARFM might occur when a new policy is implemented that requires you to answer a phone by the third ring.

A "mystery caller" system is in place as a means of monitoring compliance.

Also, to each employee who meets the three-ring standard, rewards are given. You now have a reason or added value associated with compliance.

2. **Help communicate the culture and vision to customers—daily.** Customers have specific expectations. It does not good for the organisation to have a vision if you do not help communicate and demonstrate it to the customer. Many companies place slogans and posters throughout the workplace or service area to communicate the vision. Although these approaches reinforce the message, a more effective means is for you to deliver quality customer service regularly. Through your attitude, language, appearance, knowledge of products and services, body language, and the way you communicate with your customers, they will feel your commitment to serve them.

**Figure 12.3: Positive Service Culture**



As a frontline contact with customers, you will be asked a variety of questions about the company and its products. *What skills will you need and what information should you give customers in this situation?*

3. **Demonstrate ethical behavior.** Ethical behavior is based on values — those of the society, organisation, and employees. These values are a combination of beliefs, ideologies, perceptions, experiences, and a sense of what is right (appropriate) and wrong (inappropriate). Successful demonstration of ethical behavior is often determined by the values of the customer and how he or she perceives your behavior, and the customer often holds you and your organisation to high standards. Thus, it is crucial for you to be aware of your words and actions so that you do not inadvertently send a negative ethical message to your customers.

How do you know which values your organisation holds as important?

Many times, they are communicated in an employee manual distributed during new hire orientation. Sometimes they are emblazoned on a plaque on the wall, possibly as part of the mission or philosophy statement or next to it. However, the reality test or “where the rubber meets the road” related to your organisation’s values comes in the day-to-day operational actions of you and your organisation.

From an ethical standpoint, it is often up to you and your frontline peers to assess the situation, listen to your customers’ requests, scrutinise your organisational policies and procedures, consider all options, and then make the “right” decision. This decision is fair—to your customer and your organisation—and it is morally and legally right. A 1999 movie (*The Insider* with Al Pacino and Russell Crowe) epitomized the issues of ethical behaviour. The movie is based on the true story of a tobacco industry insider who blew the whistle on his company, which publicly denied the harmful side effects of smoking. Even though the man stood to lose everything, possibly even his life, he acted out of conscience in an effort to help others. Another movie, *Erin Brockovich*, demonstrated what can happen if unethical behaviour is not immediately caught and corrected by an organisation. In that movie, Pacific Gas & Electric (PG&E) dumped chemicals into the soil and water of Hinkley, California, for years. They then covered up the pollution even though many of the local residents developed serious health problems and died. The company even paid medical bills for some residents to give the appearance of a good corporate neighbour.

Ultimately, Erin was able to piece together the details while working for a small legal firm and a class-action lawsuit resulted in the largest class-action lawsuit payment in history at the time and severe damage to the reputation of PG&E.

4. **Identify and improve your service skills.** Take an inventory of your interpersonal and customer service skills; use the strengths, and improve the weaker areas. By continually upgrading your knowledge and skills related to people, customer service, and products and services offered, you position yourself as a resource to the customer and an asset to the organisation. There is a list of different Web sites offering various behavioral style surveys at [www.mhhe.com/customerservice](http://www.mhhe.com/customerservice) if you wish to pursue learning more about yourself.



*Did u know?* Some sites periodically offer a shortened or beta test version of surveys they develop.

5. **Become an expert on your organisation.** As the frontline contact person with customers, you are likely to receive a variety of questions related to the organisation. Typical questions involve organisational history, structure, policies and procedures systems, products, or services. By being well versed in the many facets of the organisation and its operation, related industry topics, and your competition, you can project a more knowledgeable, helpful, and confident image that contributes to total customer satisfaction.

Notes



*Note* The key to ongoing customer relations is trust. Without it, you have no relationship and cannot win customer loyalty.



*Caselet*

**Case: ABB India: Gaining Power**

The top line of ABB India, a 52% subsidiary of ABB Global, Switzerland, was ₹ 8068 million in the year 2000. However, it was struggling to grow both in terms of revenues and profits, and at the same time its parent was in trouble with constant restructuring. ABB India at that time was required to contribute more to the groups bottom-line and hence in September 2001, Jurgen Dormann, CEO, ABB Global brought back Ravi Uppal from Volvo India to become the country head for ABB India. This case details the leadership style of Ravi Uppal and the restructuring initiatives he started at the company. This case takes an inside look at ABB's unprecedented transformation under Ravi Uppal. ABB India was focusing on extensive use of channel partners, is there any other way it can plan market penetration. Industrial IT initiatives and investment into R&D will help ABB India in the long run.

Source: [http://www.ibscdc.org/Case\\_Studies/Marketing/Services%20Marketing/SVM0004P.htm](http://www.ibscdc.org/Case_Studies/Marketing/Services%20Marketing/SVM0004P.htm)

6. **Demonstrate commitment.** As an employee with customer contact opportunities and responsibilities, you are the organisation's representative. One mistake that many frontline employees (and many supervisors) make in communications with customers is to intentionally or unintentionally demonstrate a lack of commitment or support for their company and a sense of powerlessness. A common way in which this occurs is with the use of "they" language when dealing with customers. This can be in reference to management or policies or procedures, for example, "Mrs. Howard, I'd like to help but our policy says . . ." or "Mrs. Howard, I've checked on your request, but my manager (they) said we can't. . . ."

An alternative to using "they" language is to take ownership or responsibility for a situation by telling the customer what you can do, not what you cannot do. Customers are not interested in internal strife or procedures; they want to have their needs satisfied. To try to involve customers in situations that are out of their control and that do not concern them is unfair and unwise. Positive language and effort on your part can reduce or eliminate unnecessarily dragging the customer in. Here's one approach: "Mrs. Howard, I'm terribly sorry that you were inconvenienced by our mistake (policy or omission). What I can do to help resolve this situation is . . . ."

**Tip:** Even if your organisation does not have a formal policy regarding returning calls, business etiquette dictates that you return all calls and do so within 24 hours or by the next business day. Even better, do so by the close of the business day if possible.

7. **Partner with customers.** Customers are the reason you have a job and the reason your organisation continues to exist. With that in mind, you should do whatever you can to promote a positive, healthy customer provider relationship. This can be done in a number of ways. Here are some simple techniques:

- ❖ Communicate openly and effectively.
- ❖ Smile-project a positive image.



- ❖ Listen intently, and then respond appropriately.
  - ❖ Facilitate situations in which customer needs are met and you succeed in win/win situations helping accomplish organisational goals.
  - ❖ Focus on developing an ongoing relationship with customers instead of taking a one-time service or sales opportunity approach.
8. **Work with your customer's interest in mind.** Think to yourself, "If I were my customer, what type of service would I expect?" Then, set out to provide that service.
  9. **Treat vendors and suppliers as customers.** Some customer service employees view vendors and suppliers as salespeople whose only purpose is to serve them. In fact, each contact with a vendor or a supplier offers a golden opportunity to tap into a pre-established network and potentially expand your own customer service base while providing better service to existing customers.
  10. **Share resources.** By building strong interpersonal relationships with co-workers and peers throughout the industry, you can develop a support system of resources. Sometimes customers will request information, products, or services that are not available through your organisation. By being able to refer customers to alternative sources, you will have provided a service, and they are likely to remember that you helped them indirectly.
  11. **Work with, not against, your customers.** Customers are in the enviable position of being in control. At no time in recent history has the cliché "It's a buyer's market" been more true, and many consumers know it. To capitalise on this situation, many organisations have become very creative and proactive in their efforts to grab and hold customers.

One large Colorado-based national supermarket, Albertson's, developed a series of commercials touting "Albertson's—it's your store" and stressing that corporate efforts were focused on customer satisfaction.

Your efforts should similarly convey the idea that you are working with customers to better serve them.



**Caution** People remember how they are treated and often act in kind.

12. **Provide service follow-up.** Providing follow-up is probably one of the most important service components. Service does not end when the service encounter or sale concludes. There are numerous follow up opportunities to ensure that customer satisfaction was attained.

This can be through a formal customer satisfaction survey or telephone callback system or through an informal process of sending thank-you cards, birthday cards, special sale mailings, and similar initiatives that are inexpensive and take little effort. Think of creative ways to follow up, and then speak to your supervisor about implementing them.



**Note** These types of efforts reinforce service commitment to customers and let them know that you want to keep them as your customers.

Notes



*Task* Think about your own organisation's service culture or, if you're not actively working as a customer service professional, the culture of an organisation with which you are familiar.

1. What do you believe the service philosophy of this organisation to be? Why?
2. Are there things that make the organisation unique? If so, what are they?
3. What factors (positive or negative) about employee performance in this organisation stand out in your mind?
4. Are there factors about the culture that detract from effectiveness? If so, what are they?
5. If you were managing this organisation, what service culture aspects would you change? Why?

**Self Assessment**

State True or False:

7. As the frontline contact person with customers, you are likely to receive a variety of questions related to the organisation.
8. Providing follow-up is probably one of the most unimportant service components.
9. Service does not end when the service encounter or sale concludes.
10. There are numerous follow up opportunities to ensure that customer satisfaction was attained.
11. Customers are not in the enviable position of being in control.



*Case Study*

**Case: You and Your New Job in Customer Service**

**I**n the following case study, you are a new employee and are excited and happy to begin your position in customer service with United Booksellers. Read about the company and your role in customer service, and then answer the questions at the end of the case study.

**Background**

United Booksellers is the fifth-largest retailer of publications on the West Coast in the United States. It started 15 years ago as a family-owned bookstore in Seattle, Washington, and has grown to over 125 stores in seven states. The organisation currently employs 3,000 employees, each of whom receives extensive customer service training before being allowed to interact with customers.

Recent issues of *Booksellers Journal* and *Publishers Select* magazine have heralded the quality service and friendly atmosphere of the organisation. United Booksellers has been praised for the appearance of the facilities, helpfulness and efficiency of employees, wide selection of publications, and intimate coffee shops where patrons can relax and read their purchases over a hot cup of fresh cappuccino.

*Contd...*

**Your Role**

As a new customer service professional with United Booksellers, you are excited about starting your job, which will require continual customer contact. As a child, you watched your siblings perform customer service functions at the local Burger Mania Restaurant and always thought you'd like to follow their lead. Since you like people, enjoy a challenge, don't get stressed out easily, and have hopes of moving into management, you anticipate that this job should be just right for you. In this position, you'll be expected to receive new publications from publishers, log in receipts, stock shelves, assist customers, and occasionally work as backup cashier.

**Questions:**

1. Are there indicators of United Booksellers' service culture? If so, what are they?
2. If you were an employee, in what ways would you feel that you could contribute to the organisational culture?
3. If you were a customer, what kind of service would you expect to receive at United Booksellers? Why?

**Notes****12.5 Summary**

This unit attempts to give an overview of the functions in as simple manner as possible.

- Professional customer service helps highlight and define service culture.
- Everything customers experience from the time they contact an organisation in person, on the phone, or through other means, affects their perception of the organisation and its employees.
- To positively influence their opinion, you must constantly be alert for opportunities to provide excellent service.
- Taking the time to provide a little extra effort can often mean the difference between total customer satisfaction and service breakdown.
- Your role in helping create a positive service culture is to continually think like your customers and try to decide how you should best proceed in any situation in which you come into contact with them.
- Successful service providers have a plan and have strategies in mind for dealing with various issues.
- Through professional, proactive planning, you can demonstrate that you have your customer's best interest at heart while representing your organisation ethically and in a manner that projects a positive attitude.

**12.6 Keywords**

**Service Culture:** A service environment made up of various factors, including the values, beliefs, norms, rituals and practices of a group or organisation

**Attitudes:** Emotional responses to people, ideas and objects. They are based on values, differ between individuals and cultures, and affect the way people deal with various issues and situations.

**Notes**

**Customer-centric:** A term used to describe service providers and organisations that put their customers first and spend time, effort, and money identifying and focusing on the needs of current and potential customers.

**Mission:** The direction or focus of an organisation that supports day-to-day interactions with customers.

**Service Philosophy:** The approach that an organisation takes to providing service and addressing the needs of customers.

**Employee Roles:** Task assignments that service providers assume.

**Employee Expectations:** Perceptions about positive and negative aspects of the workplace.

**12.7 Review Questions**

1. What are some of the key elements that make up a service culture?
2. How does management's service philosophy affect the culture of an organisation?
3. What questions should you ask yourself about your role as a service provider?
4. What are some indicators that a company has customer-friendly systems in place?
5. What are some of the tools used by organisations to measure their service culture?
6. What are some strategies for helping promote a positive customer culture?
7. What separates average organisations from excellent ones?
8. What are some typical things that customers want?

**Answers: Self Assessment**

1. Organizations
2. physical appearance
3. top-down-oriented
4. culture
5. success or failure
6.
  1. (c)
  2. (a)
  3. (e)
  4. (d)
  5. (b)
7. True
8. False
9. True
10. True
11. False

## 12.8 Further Readings

Notes



Books

J M Rathmell, "Marketing in the Service Sector" (Cambridge Mass: Winthrop), 1974, pp. 63-66.

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Christopher H Lovelock and Robert F Young, "Look to Customers to Increase Productivity", *Harvard Business Review*, May-June 1979.



Online links

[http://www.ocba.sa.gov.au/assets/files/21\\_custservice10.pdf](http://www.ocba.sa.gov.au/assets/files/21_custservice10.pdf)

[http://highered.mcgraw-hill.com/sites/dl/free/0073397113/884629/Luc97113\\_ch02\\_038\\_075.pdf](http://highered.mcgraw-hill.com/sites/dl/free/0073397113/884629/Luc97113_ch02_038_075.pdf)

## **Unit 13: Performance Measurement in Services**

### **CONTENTS**

Objectives

Introduction

13.1 Performance Measurement in Services

13.2 Types of Measures

13.3 Seven Good Reasons to Conduct Performance Measurement

13.4 Key Performance Indicators

13.5 Process Analysis

13.6 Summary

13.7 Keywords

13.8 Review Questions

13.9 Further Readings

### **Objectives**

After studying this unit, you will be able to:

- Elaborate the performance measurement concept in services
- Discuss the reasons to conduct the performance measure
- Describe the various types of measures

### **Introduction**

Faced with stiffening competition, increasingly demanding customers, high labour costs, and, in some markets, slowing growth, service businesses around the world are trying to boost their productivity. But whereas manufacturing businesses can raise it by monitoring and reducing waste and variance in their relatively homogeneous production and distribution processes, service businesses find that improving performance is trickier: their customers, activities, and deals vary too widely. Moreover, services are highly customizable, and people—the basic unit of productivity in services—bring unpredictable differences in experience, skills, and motivation to the job.

Such seemingly uncontrollable factors cause many executives to accept a high level of variance—and a great deal of waste and inefficiency—in service costs. Executives may be hiring more staff than they need to support the widest degree of variance and also forgoing opportunities to write and price service contracts more effectively and to deliver services more productively.

As with any task or operation, to improve the productivity of services, you must apply the lessons of experience. Consequently, measuring and monitoring performance (and its variance) is a fundamental prerequisite for identifying efficiencies and best practices and for spreading them throughout the organisation.

### **13.1 Performance Measurement in Services**

Performance measurement involves determining what to measure, identifying data collection methods, and collecting the data. Evaluation involves assessing progress toward achieving performance expectations, usually to explain the causal relationships that exist between program activities and outcomes. Performance measurement and evaluation are components of

performance-based management, the systematic application of information generated by performance plans, measurement, and evaluation to strategic planning and budget formulation.

**Notes**

“Performance measurement is the selection and use of quantitative measures of capacities, processes, and outcomes to develop information about critical aspects of activities, including their effect on the public.”

“Performance measurement is the regular collection and reporting of data to track work produced and results achieved.”

### 13.1.1 Why We should Measure Performance?

Performance measurement improves the management and delivery of products and services. A recent opinion poll asked a group of adults what they thought the Federal government’s top priority should be. Almost half wanted emphasis put on better management. In a world of diminishing resources, improving management of programs and services is critical.

Performance measurement improves communications internally among employees, as well as externally between the organisation and as customers and stakeholders. The emphasis on measuring and improving performance (i.e. “results- oriented management”) has created a new climate, affecting all government agencies, and most private sector and non-profit institutions as well. A results-oriented organisation requires timely and accurate information on programs and supporting services, whether at Headquarters, Field Elements, or contractor locations. Collecting and processing accurate information depends on the effective communication of mission-critical activities.

Performance measurement helps justify programs and their costs. The public, Congress, and Office of Management and Budget are increasingly taking a more “results-oriented” look at government programs, and the cost-effectiveness of program expenditures is increasingly being called into question. In an era of shrinking Federal budgets, demonstration of good performance and sustainable public impacts with positive results help justify programs and their costs.

Performance measurement demonstrates the accountability of Federal stewardship of taxpayer resources. Federal employees and contractors want their day-to-day activities to contribute to a better society. Performance measurement can show that we are addressing the needs of society by making progress toward national goals.

Performance measurement is mandated by the Government Performance and Results Act (GPRA) of 1993 and is central to other legislation and Administration initiatives. In addition to holding Federal Agencies accountable for achieving program results, GPRA also promotes a focus on service quality and customer satisfaction, and seeks to improve executive and Congressional decision making by clarifying and stating organisational performance expectations, measures, and program costs “up front.” The Government Management Reform Act of 1994 gives additional impetus to improve management of government performance by requiring, among other things, annual audited financial statements. Agencies must include performance information (programmatic and financial) in the overview to their financial statements.

### 13.1.2 How We use Performance Measurement

Your organisation may use performance measurement for three basic purposes:

- Providing measurable results so the Department of Energy (DOE) can demonstrate progress towards goals and objectives. This is done by providing specific measurement results that aggregate to DOE-wide measures.

**Notes**

- Determining the effectiveness of your part of the Department. Your organisation needs to determine how well it is meeting its mission, vision and goals. Developing and using a system of performance measures enables you to identify areas needing attention and opportunities for improvement.
- Characterising the performance of a work process can support improvement of that process. Process improvement teams often analyse work processes by breaking them down into related project activities and tasks to improve quality, timeliness, and efficiency.

It is important to note, however, that performance measurement cannot be undertaken in isolation. It is only one step in a continuous improvement process that includes assessment, strategic planning, program and budget formulation, performance measurement and program evaluation.

**Self Assessment**

Fill in the blanks:

1. Performance measurement is mandated by the ..... and Results Act (GPRA) of 1993 and is central to other legislation and Administration initiatives.
2. Performance measurement improves ..... internally among employees, as well as externally between the organisation and as customers and stakeholders.
3. .... teams often analyse work processes by breaking them down into related project activities and tasks to improve quality, timeliness and efficiency.
4. The Government Management Reform Act of ..... gives additional impetus to improve management of government performance by requiring, among other things, annual audited financial statements.
5. A ..... organisation requires timely and accurate information on programs and supporting services, whether at Headquarters, Field Elements, or contractor locations.

**13.2 Types of Measures**

The different types of measures are as follows:

**Service Level Indicators**

It provides an indication of the service/activity levels, by reflecting the amount of resources approved by City Council or the volumes of service delivered to residents. For the purposes of comparing to other municipalities results are often expressed on a common basis, such as the number of units of service provided per 100,000 population.

**Community Impact Measures**

It measures the outcome, impact or benefit the City program is having on the communities they serve in relation to the intended purpose or societal outcomes expected. These often tie to the mission statements of the program or service.

**Community Service Measures**

It measures the quality of service delivered relative to service standards or the customer's needs and expectations.



## Efficiency Measures

## Notes

It compares the resources used to the number of units of service provided or delivered. Typically this is expressed in terms of cost per unit of service.

### 13.3 Seven Good Reasons to Conduct Performance Measurement

The reasons for conducting the performance measurement are as follows:

1. **Setting Goals, Developing Objectives:** Implementing performance measurement compels you to reassess your work groups, program's, or organisation's goals and objectives. Goals describe where you want to go and how it looks when you get there. Objectives define specific results that will show movement toward your goals – the mileposts along the road, if you will.

Thinking about how to measure your performance might inspire you to set new long-term goals, new long-term and short-term objectives, and new or revised approaches to your work. Rethinking goals and objectives might result in developing a new strategic plan for your many efforts.

Taking a chunk of time to assess goals and think about objectives for reaching them can be eye-opening and invigorating. It can regenerate people's interest – and belief – in their work, and can pull you and your stakeholders, both outside and within your group, together as you engage in creative debate and collaboration. There really is something to be said for forging a unified vision of where you want your efforts to lead.

2. **Taking Stock:** Implementing performance measurement gives you an opportunity to step back and assess your organisation's capacity to undertake your work. What are the “holes” in your skills, knowledge, finances, and infrastructure? Are your organisational structures and procedures working effectively? What are your strengths and weaknesses?

The performance measures you select will depend on and reflect your capacity to carry out your work. You don't want to try to do more in performance measurement than the capacity available to you allows. For example, developing measures that require statistical analysis skills to which you don't have access is counterproductive. When you haven't got the finances or infrastructure or other needed capacity to measure certain processes or outcomes, committing to those measures in the hope of developing the capacity can set you up for failure. The measures could present an impression of your work that doesn't do it justice and mask otherwise good efforts. And measures that create an inaccurate impression of your work can be used against you.

Thus, effective and truly reflective performance measurement is premised on a pragmatic, unsentimental assessment of the tools at hand.



**Caution** A strictly program-specific approach might lead to duplication of data collection efforts or missed opportunities to adopt measures that can be used by more than one program. For example, measures related to tobacco use may be of interest not only to a tobacco control program, but also to programs aimed at preventing cancer, preventing and controlling chronic respiratory illnesses such as asthma, and reducing the incidence of low-weight births.

Notes

**TAKING STOCK**

What Does “Capacity” Mean?

Structures and Policies – You have the clear lines of authority, organisational structure, and procedures needed to effectively carry out the core functions.

Skills and Resources – You have the workforce, financing, facilities, and equipment required to effectively carry out the core functions.

Information and Communication – You can receive, process, and communicate information, data, and reports to effectively carry out the core functions.

*Source:* Washington State Department of Health. The Public Health Improvement Plan. (Olympia: Washington State Dept. of Health, 1994). Available at [http://www.doh.wa.gov/Publicat/94\\_PHIP/94php.htm](http://www.doh.wa.gov/Publicat/94_PHIP/94php.htm)

3. **Collaborating:** Implementing performance measurement gives you an opportunity to create working arrangements with other groups, programs, departments, agencies, organisations, and stakeholders. This collaborative cross-fertilizing can make for a stronger approach to meeting goals – especially large ones that overarch others’ efforts besides yours – and can help fill holes in your capacity to carry out your work.

Maybe you can’t most effectively meet an objective if you don’t have the cooperation and participation of another work group. Maybe collaboration with another program will eliminate duplication of effort between you. Could you share a database administrator with another department to meet both of your needs more efficiently? What about trading expertise with another agency or stakeholder organisation instead of hiring someone to come in and conduct training?

Collaboration comes in many forms, and just knowing your performance is going to be measured gives you an opportunity and incentive to dream up styles that will work for you.



*Note* Traditional systems tend to report results based on functional or departmental lines. Unfortunately, this reinforces reporting or organisational lines of authority, rather than encouraging team, process, or other cross-functional approaches. This does not reflect the way that your customers, suppliers, employees, or other stakeholders view your organisation.

4. **Assigning Accountability:** Accountability can mean two things to people working in the public sector: accountability for making a difference in the lives of the people you serve – BIG picture accountability – and accountability for the work for which you are responsible on a day-to-day basis – pragmatic accountability.

No single public health organisation, program, group or service is responsible or accountable for achieving big picture public health goals all by itself. But while it might not be fully responsible for achieving any single social goal, it might be responsible for addressing the goal and for achieving outcomes that take everyone closer to it.

Implementing performance measurement gives you an opportunity to evaluate and define the types and levels of contribution you do or can make to achieving large, overarching public health goals and thus for defining – and accepting – your portion of accountability for the big picture.

Implementing performance measurement also provides an opportunity to assess more pragmatic accountability issues, such as evaluating and defining roles and responsibilities, and levels and lines of authority. Assigning this day-to-day accountability helps reduce the “It wasn’t my job” or “It wasn’t up to me” responses to issues, problems, and crises. The nice thing about this more pragmatic accountability is that day-to-day roles and responsibilities and lines of authority are the key ingredients in successfully contributing to meeting the large, big-picture goals for which you are also, in part, accountable.



*Caution* It is best to assign accountability from the perspective of achieving quality improvement, not to mete out punishment. Reprimands, jobs lost, and slashed funding are not particularly helpful outcomes of the accountability assigned in performance measurement.

5. **Improving Work Quality:** Implementing performance measurement gives you an opportunity to assess the quality or effectiveness of your work right now. You can’t measure progress if you haven’t got a baseline.

Once you’ve completed that scary task, developing a performance measurement process offers you two more opportunities

- ❖ The opportunity to identify those areas where you want to improve and have ready access to the tools you need to make it happen.
- ❖ The opportunity to track changes (ideally, improvements) in quality and effectiveness in these areas over time.

So performance measurement gives you an opportunity to assess, right now, the quality and effectiveness of your work, as well as an opportunity to develop ways to improve on both. Reaching out to peers and trolling the literature to learn about “best practices” – or “good examples” – in public health, including some of the most effective intervention strategies, will help in this regard.



*Did u know?* Many measures that track health outcomes (such as infant mortality rates) or social functioning (such as child abuse) are affected by so many factors that change in outcomes cannot be attributed to specific program effectiveness alone. Attribution of responsibility for outcomes becomes even more difficult when the services in question are supported by multiple funding sources or multiple providers

6. **Tracking Progress:** This is one of the things that performance measurement is all about! Tracking your progress over time through performance measurement gives you an opportunity to assess and improve on practices, processes, activities, and systems. Tracking performance measures allows you to observe whether changes in things like management practices or data retrieval techniques are working. Bottom line: performance measurement allows you to track your progress toward achieving your objectives and meeting your goals. Conducting performance measurement also gives you good information to help identify problem areas that need attention. Although it cannot tell you why these areas aren’t working as effectively as you might like, performance measurement gives you information on where the problems might be, a critical first step.

Tracking performance measures also helps reveal where you’re having success. You might want to examine these areas, too, to find out the “why”: Why is this activity working so well? Could an approach in use here serve as a model for others?

Notes

Finally, tracking progress allows you to report progress to those who most want to know how you're doing.



*Note* Performance measurement systems should be positive, not punitive. The most successful performance measurement systems are not 'gotcha' systems, but learning systems that help the organisation identify what works.

7. **Reporting Out:** Conducting performance measurement gives you good information for reporting progress to all of your stakeholders, who might include:

- ❖ State government, including the executive and legislative branches.
- ❖ Your peers, including other groups, programs, departments, divisions, agencies, and the like.
- ❖ Other public health organisations, including state, regional, and local government and private-sector organisations.
- ❖ The community you serve, whether it's defined geographically – for example, state, region, county, city, and township – or as a particular group of people.

A key goal of performance measurement, too, is to report progress back to those in your organisation responsible for carrying out the work. You cannot improve what you don't know needs improving. And positive, constructive feedback from a performance measurement process goes a long way toward a confident, optimistic, and constantly improving work environment.



*Caselet*

### **Case: The Application of Performance Measurement in the Service Quality Concept**

The considerable attention that customers place in the notion of the quality of services has altered the practices which service organisations make use of, in order to assess and improve their service quality. In addition, the fierce competition extending from the inter-intra industry competitors to the unique characteristics of services has strengthened even more the challenges that service firms face. In that way, enterprises have acquired the principles of performance measurement in the service quality context, in order to examine the effectiveness and efficiency not only of their internal operations, but also the customers' external perceptions. In this light, the current paper aims to provide the reader with an in-depth insight of the integration of performance measurement in the assessment and improvement of service quality. In that way, investigating the performance measurement system in the context which is occurred, the justification of its adoption, implementation and operation could be achieved. The current paper conducted under qualitative principles as well as documentary data were collected. Semi-structured interviews were employed in order valuable information to be gathered. Finally, questionnaires were applied to the company's key customers, presenting a more accurate insight of the improvement of performance indicators in service quality context.

**Source:** [http://www.eurojournals.com/jmib\\_9\\_03.pdf](http://www.eurojournals.com/jmib_9_03.pdf)

## **13.4 Key Performance Indicators**

Notes

Key Performance Indicators, also known as KPI or Key Success Indicators (KSI), help an organisation define and measure progress toward organisational goals.

Once an organisation has analysed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals. Key Performance Indicators are those measurements.

### **13.4.1 What are Key Performance Indicators (KPI)?**

Key Performance Indicators are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organisation. They will differ depending on the organisation.

- A business may have as one of its Key Performance Indicators the percentage of its income that comes from return customers.
- A school may focus its Key Performance Indicators on graduation rates of its students.
- A Customer Service Department may have as one of its Key Performance Indicators, in line with overall company KPIs, percentage of customer calls answered in the first minute.
- A Key Performance Indicator for a social service organisation might be number of clients assisted during the year.

Whatever Key Performance Indicators are selected, they must reflect the organisation's goals, they must be key to its success, and they must be quantifiable (measurable). Key Performance Indicators usually are long-term considerations. The definition of what they are and how they are measured do not change often.

The goals for a particular Key Performance Indicator may change as the organisation's goals change, or as it gets closer to achieving a goal.

### **Key Performance Indicators Reflect the Organizational Goals**

An organisation that has as one of its goals "to be the most profitable company in our industry" will have Key Performance Indicators that measure profit and related fiscal measures. "Pre-tax Profit" and "Shareholder Equity" will be among them. However, "Percent of Profit Contributed to Community Causes" probably will not be one of its Key Performance Indicators. On the other hand, a school is not concerned with making a profit, so its Key Performance Indicators will be different. KPIs like "Graduation Rate" and "Success in Finding Employment after Graduation", though different, accurately reflect the schools mission and goals.

### **Key Performance Indicators must be Quantifiable**

If a Key Performance Indicator is going to be of any value, there must be a way to accurately define and measure it. "Generate More Repeat Customers" is useless as a KPI without some way to distinguish between new and repeat customers. "Be The Most Popular Company" won't work as a KPI because there is no way to measure the company's popularity or compare it to others.

It is also important to define the Key Performance Indicators and stay with the same definition from year to year. For a KPI of "Increase Sales", you need to address considerations like whether to measure by units sold or by dollar value of sales. Will returns be deducted from sales in the month of the sale or the month of the return? Will sales be recorded for the KPI at list price or at the actual sales price?

**Notes**

You also need to set targets for each Key Performance Indicator. A company goal to be the employer of choice might include a KPI of “Turnover Rate”. After the Key Performance Indicator has been defined as “the number of voluntary resignations and terminations for performance, divided by the total number of employees at the beginning of the period” and a way to measure it has been set up by collecting the information in an HRIS, the target has to be established. “Reduce turnover by five percent per year” is a clear target that everyone will understand and be able to take specific action to accomplish.

**Self Assessment**

Fill in the blanks:

6. If a ..... Indicator is going to be of any value, there must be a way to accurately define and measure it.
7. Key Performance Indicators, also known as KPI or ..... (KSI), help an organisation define and measure progress toward organisational goals.
8. A key goal of ....., too, is to report progress back to those in your organisation responsible for carrying out the work.
9. .... performance measurement gives you an opportunity to assess the quality or effectiveness of your work right now.
10. The nice thing about pragmatic ..... is that day-to-day roles and responsibilities and lines of authority are the key ingredients in successfully contributing to meeting the large, big-picture goals for which you are also, in part, accountable.

 <i>Task</i> Discuss the Key Performance Indicators.
--

**13.5 Process Analysis**

An operation is composed of *processes* designed to add value by transforming inputs into useful outputs. Inputs may be materials, labor, energy, and capital equipment. Outputs may be a physical product (possibly used as an input to another process) or a service. Processes can have a significant impact on the performance of a business, and process improvement can improve a firm’s competitiveness.

The first step to improving a process is to analyse it in order to understand the activities, their relationships, and the values of relevant metrics. Process analysis generally involves the following tasks:

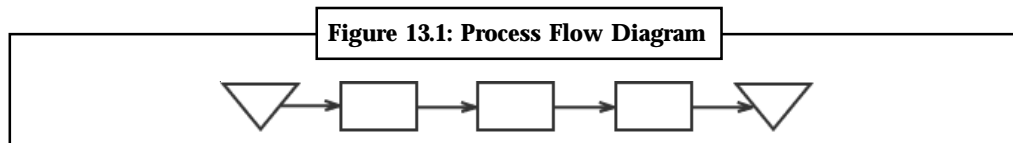
- Define the process boundaries that mark the entry points of the process inputs and the exit points of the process outputs.
- Construct a process flow diagram that illustrates the various process activities and their interrelationships.
- Determine the capacity of each step in the process. Calculate other measures of interest.
- Identify the bottleneck, that is, the step having the lowest capacity.
- Evaluate further limitations in order to quantify the impact of the bottleneck.
- Use the analysis to make operating decisions and to improve the process.

### 13.5.1 Process Flow Diagram

Notes

The process boundaries are defined by the entry and exit points of inputs and outputs of the process.

Once the boundaries are defined, the process flow diagram (or *process flowchart*) is a valuable tool for understanding the process using graphic elements to represent tasks, flows and storage. The following is a flow diagram for a simple process having three sequential activities:



The symbols in a process flow diagram are defined as follows:

- **Rectangles:** represent tasks to be perform.
- **Arrows:** represent flows. Flows include the flow of material and the flow of information. The flow of information may include production orders and instructions. The information flow may take the form of a slip of paper that follows the material, or it may be routed separately, possibly ahead of the material in order to ready the equipment. Material flow usually is represented by a solid line and information flow by a dashed line.
- **Inverted triangles:** represent storage (inventory). Storage bins commonly are used to represent raw material inventory, work in process inventory, and finished goods inventory.
- **Circles:** represent storage of information (*not shown in the above diagram*).

In a process flow diagram, tasks drawn one after the other in series are performed sequentially. Tasks drawn in parallel are performed simultaneously.

In the above diagram, raw material is held in a storage bin at the beginning of the process. After the last task, the output also is stored in a storage bin.

When constructing a flow diagram, care should be taken to avoid pitfalls that might cause the flow diagram not to represent reality.

For example, if the diagram is constructed using information obtained from employees, the employees may be reluctant to disclose rework loops and other potentially embarrassing aspects of the process. Similarly, if there are illogical aspects of the process flow, employees may tend to portray it as it should be and not as it is. Even if they portray the process as they perceive it, their perception may differ from the actual process. For example, they may leave out important activities that they deem to be insignificant.

### 13.5.2 Process Performance Measures

Operations managers are interested in process aspects such as cost, quality, flexibility, and speed. Some of the process performance measures that communicate these aspects include:

- **Process capacity:** The capacity of the process is its maximum output rate, measured in units produced per unit of time. The capacity of a series of tasks is determined by the lowest capacity task in the string. The capacity of parallel strings of tasks is the sum of the capacities of the two strings, except for cases in which the two strings have different outputs that are combined. In such cases, the capacity of the two parallel strings of tasks is that of the lowest capacity parallel string.
- **Capacity utilization:** The percentage of the process capacity that actually is being used.

Notes

- **Throughput rate (also known as flow rate ):** The average rate at which units flow past a specific point in the process. The maximum throughput rate is the process capacity.
- **Flow time (also known as throughput time or lead time):** The average time that a unit requires to flow through the process from the entry point to the exit point. The flow time is the length of the longest path through the process. Flow time includes both processing time and any time the unit spends between steps.
- **Cycle time:** The time between successive units as they are output from the process. Cycle time for the process is equal to the inverse of the throughput rate. Cycle time can be thought of as the time required for a task to repeat itself. Each series task in a process must have a cycle time less than or equal to the cycle time for the process. Put another way, the cycle time of the process is equal to the longest task cycle time. The process is said to be in balance if the cycle times are equal for each activity in the process. Such balance rarely is achieved.
- **Process time:** The average time that a unit is worked on. Process time is flow time less idle time.
- **Idle time:** Time when no activity is being performed, for example, when an activity is waiting for work to arrive from the previous activity. The term can be used to describe both machine idle time and worker idle time.
- **Work In process:** The amount of inventory in the process.
- **Set-up time:** The time required to prepare the equipment to perform an activity on a batch of units. Set-up time usually does not depend strongly on the batch size and therefore can be reduced on a per unit basis by increasing the batch size.
- **Direct labour content:** The amount of labour (in units of time) actually contained in the product. Excludes idle time when workers are not working directly on the product. Also excludes time spent maintaining machines, transporting materials, etc.
- **Direct labor utilization:** The fraction of labor capacity that actually is utilised as direct labour.

**Little's Law**

The inventory in the process is related to the throughput rate and throughput time by the following equation:

$$\text{W.I.P. Inventory} = \text{Throughput Rate} \times \text{Flow Time}$$

This relation is known as *Little's Law*, named after John D.C. Little who proved it mathematically in 1961. Since the throughput rate is equal to  $1 / \text{cycle time}$ , Little's Law can be written as:

$$\text{Flow Time} = \text{W.I.P. Inventory} \times \text{Cycle Time}$$

**The Process Bottleneck**

The process capacity is determined by the slowest series task in the process; that is, having the slowest throughput rate or longest cycle time. This slowest task is known as the *bottleneck*. Identification of the bottleneck is a critical aspect of process analysis since it not only determines the process capacity, but also provides the opportunity to increase that capacity.

Saving time in the bottleneck activity saves time for the entire process. Saving time in a non-bottleneck activity does not help the process since the throughput rate is limited by the bottleneck. It is only when the bottleneck is eliminated that another activity will become the new bottleneck and present a new opportunity to improve the process.



If the next slowest task is much faster than the bottleneck, then the bottleneck is having a major impact on the process capacity. If the next slowest task is only slightly faster than the bottleneck, then increasing the throughput of the bottleneck will have a limited impact on the process capacity.

### Starvation and Blocking

**Starvation** occurs when a downstream activity is idle with no inputs to process because of upstream delays. **Blocking** occurs when an activity becomes idle because the next downstream activity is not ready to take it. Both starvation and blocking can be reduced by adding buffers that hold inventory between activities.

### 13.5.3 Process Improvement

Improvements in cost, quality, flexibility and speed are commonly sought. The following lists some of the ways that processes can be improved:

- Reduce work-in-process inventory – reduces lead time.
- Add additional resources to increase capacity of the bottleneck. For example, an additional machine can be added in parallel to increase the capacity.
- Improve the efficiency of the bottleneck activity – increases process capacity.
- Move work away from bottleneck resources where possible – increases process capacity.
- Increase availability of bottleneck resources, for example, by adding an additional shift – increases process capacity.
- Minimise non-value adding activities – decreases cost, reduces lead time. Non-value adding activities include transport, rework, waiting, testing and inspecting and support activities.
- Redesign the product for better manufacturability – can improve several or all process performance measures.
- Flexibility can be improved by outsourcing certain activities. Flexibility also can be enhanced by postponement, which shifts customising activities to the end of the process.

In some cases, dramatic improvements can be made at minimal cost when the bottleneck activity is severely limiting the process capacity. On the other hand, in well-optimized processes, significant investment may be required to achieve a marginal operational improvement. Because of the large investment, the operational gain may not generate a sufficient rate of return. A cost-benefit analysis should be performed to determine if a process change is worth the investment. Ultimately, net present value will determine whether a process “improvement” really is an improvement.

### Self Assessment

Fill in the blanks:

11. .... occurs when a downstream activity is idle with no inputs to process because of upstream delays.
12. .... occurs when an activity becomes idle because the next downstream activity is not ready to take it.
13. Both starvation and blocking can be reduced by adding ..... that hold inventory between activities.

Notes

- 14. The process capacity is determined by the slowest series task in the process; that is, having the slowest throughput rate or .....
- 15. Operations managers are interested in process aspects such as cost, quality, ....., and speed.



Case Study

**Case: Reform of Specific Purpose Payments**

In December 2007, COAG agreed to reform Specific Purpose Payments (SPPs) (COAG 2007). SPPs are financial agreements between the Australian Government and State and Territory governments, involving a contribution by the Australian Government to the funding of services which are considered a joint Australian and State and Territory government responsibility. SPPs are relevant to many of the services covered in this report, frequently defining the respective roles of the Australian and State and Territory governments, determining financial arrangements and underpinning national data collections.

At its 29 November 2008 meeting, COAG agreed to six new National Agreements (National Healthcare Agreement, National Education Agreement, National Agreement for Skills and Workforce Development, National Affordable Housing Agreement, National Disability Agreement and the National Indigenous Reform Agreement) (COAG 2008b). Five of these Agreements are associated with a National SPP that can provide funding to the states and territories for the sector covered by the National Agreement. As part of the COAG reforms, over 90 SPPs have been revised down to these five SPPs, covering schools, vocation education and training, disability services, healthcare and affordable housing.

Under these reforms, each National Agreement contains the objectives, outcomes, outputs and performance indicators for each sector, and clarifies the respective roles and responsibilities that will guide the Commonwealth and the States and Territories in the delivery of services. The performance of all governments in achieving mutually agreed outcomes and benchmarks specified in each National Agreement will be monitored and assessed by the COAG Reform Council (CRC).

The Steering Committee has been requested by COAG to provide the SPP performance information to the CRC (COAG 2008a). The National Agreements/SPPs will be supplemented by three types of National Partnerships (NPs): project, facilitation, and reward agreements. Funding for NPs may be conditional on states and territories meeting agreed performance benchmarks.

The Steering Committee will ensure that this Report reflects the COAG priorities identified in the performance reporting frameworks for each National Agreement, associated SPP and any relevant NPs.

**'Measures of Australia's Progress'**

In April 2006, the ABS published the third issue of *Measures of Australia's Progress* (ABS 2006). The ABS publishes a summary of the headline indicators on its website annually.

The publication presents indicators across three domains of progress — economic, social and environmental. Each indicator signals recent progress, typically denoting developments over the past 10 years to help Australians address the question, 'Has life in our country got better, especially during the past decade?' The framework includes both

Contd...

headline and supplementary indicators, and focuses on outcomes rather than inputs or processes. The publication includes special articles that relate to, rather than measure, progress — for example, a feature essay on Life satisfaction and measures of progress.

#### **Performance Monitoring in other countries**

Performance reporting is undertaken in other countries using various approaches.

##### **OECD**

The OECD Fact book provides a global overview of major economic, social and environmental indicators. Data are provided for all OECD member countries and for selected non-member economies. The information is outcome focused, and is not linked to specific service delivery agencies. The 2008 Fact book's special focus was on productivity—how efficiently production inputs, such as labor and capital, are being used (OECD 2008).

##### **United Kingdom**

In the United Kingdom, key performance data on public service delivery is available on a single Treasury website. This reporting allows the public to assess how the United Kingdom Government is delivering across all areas of government.

Reporting includes public service agreements which measure agency performance by setting out the aim of the department or program, the supporting objectives and the key outcome-based targets that are to be achieved during a specified period (HM Treasury 2007).

##### **New Zealand**

The New Zealand Ministry of Social Development produces an annual *Social Report*, which provides information on the health and well-being of New Zealand society. Indicators are used to measure levels of wellbeing, to monitor trends over time, and to make comparisons with other countries. A web site provides data for social report indicators by regional council and territorial authority areas. The Social Report covers nine 'domains' — unlike this Report, these domains do not directly reflect specific service areas (although there is sometimes a broad connection). A limited number of high level indicators are presented for each domain, but there is no attempt to comprehensively address the full range of objectives of any specific government service (Ministry of Social Development 2007).

#### **Questions:**

1. Discuss the case study in detail.
2. Elaborate the monitoring of performance in various countries.

## **13.6 Summary**

This unit attempts to give an overview of the functions in as simple manner as possible.

- Performance measurement is mandated by the Government Performance and Results Act (GPRA) of 1993 and is central to other legislation and Administration initiatives.
- In addition to holding Federal Agencies accountable for achieving program results, GPRA also promotes a focus on service quality and customer satisfaction, and seeks to improve executive and Congressional decision-making by clarifying and stating organisational performance expectations, measures, and program costs “up front.”
- The Government Management Reform Act of 1994 gives additional impetus to improve management of government performance by requiring, among other things, annual audited financial statements.

Notes

- Agencies must include performance information programmatic and financial in the overview to their financial statements.
- An organisation that has as one of its goals “to be the most profitable company in our industry” will have Key Performance Indicators that measure profit and related fiscal measures.
- “Pre-tax Profit” and “Shareholder Equity” will be among them.
- However, “Percent of Profit Contributed to Community Causes” probably will not be one of its Key Performance Indicators.
- On the other hand, a school is not concerned with making a profit, so its Key Performance Indicators will be different. KPIs like “Graduation Rate” and “Success in Finding Employment after Graduation”, though different, accurately reflect the schools mission and goals.
- An operation is composed of *processes* designed to add value by transforming inputs into useful outputs. Inputs may be materials, labour, energy and capital equipment.
- Outputs may be a physical product (possibly used as an input to another process) or a service.
- Processes can have a significant impact on the performance of a business, and process improvement can improve a firm’s competitiveness.

### **13.7 Keywords**

**Accountability:** An obligation or willingness to be assessed on the basis of appropriate measures of actions and outcomes with regard to the achievement of workgroup/program/organisation or policy purposes.

**Capacity:** The ability of a work group, program, or organisation to carry out the essential public health services, and in particular to provide specific services; for example, disease surveillance, community education, or clinical screening. This ability is made possible by specific program resources as well as by maintenance of the basic infrastructure of the public health system.

**Goal:** An issue-oriented statement of an organisation’s desired future direction or desired end state. Goals guide an organisation’s efforts; they articulate the overall expectations and intentions for the organisation.

**Mission Statement:** A comprehensive yet concise statement defining what a work group/program/organisation does, for whom, how, and why.

**Objective:** A measurable target that describes specific end results that a service or program is expected to accomplish within a given time period.

**Performance Management:** The use of performance measurement information to help set agreed-upon performance goals, allocate and prioritize resources, inform managers to either confirm or change current policy or program directions to meet those goals, and report on the success in meeting those goals.

**Performance Measure:** The specific quantitative representation of a capacity, process, or outcome deemed relevant to the assessment of performance.

**Performance Standard:** A generally accepted, objective standard of measurement such as a rule or guideline against which an organisation’s level of performance can be compared.

## 13.8 Review Questions

Notes

1. Define the term Performance Measurement.
2. What is the role of performance management in services?
3. Why we should measure performance?
4. How we should measure performance?
5. Discuss the types of measures.
6. Define the concept of service process analysis.
7. Discuss the Little's Law.
8. Explain the concept of process flow diagram.
9. Discuss the list of the ways that processes can be improved.
10. Define the concept of Key Performance Indicators.

## Answers: Self Assessment

- |                           |                            |
|---------------------------|----------------------------|
| 1. Government Performance | 2. communications          |
| 3. Process improvement    | 4. 1994                    |
| 5. results-oriented       | 6. Key Performance         |
| 7. Key Success Indicators | 8. performance measurement |
| 9. Implementing           | 10. accountability         |
| 11. Starvation            | 12. Blocking               |
| 13. buffers               | 14. longest cycle time     |
| 15. flexibility           |                            |

## 13.9 Further Readings



Books

Virginia Department of Planning and Budget, Planning and Evaluation Section. *Virginia's Handbook on Planning & Performance* (Richmond: 1998).

The National Performance Review (now the National Partnership for Reinventing Government). *Serving the American Public: Best Practices in Performance Measurement. Benchmarking Study Report*. (Washington, D.C.: Government Printing Office, 1997).

4 National Research Council. E.B. Perrin, J.S. Durch, and S.M. Skillman, eds., *Health Performance Measurement in the Public Sector: Principles and Policies for Implementing an Information Network*. (Washington D.C.: National Academy Press, 1999).



Online links

<http://management.about.com/cs/generalmanagement/a/keyperfindic.htm>  
[http://www.mckinseyquarterly.com/Measuring\\_performance\\_in\\_services\\_1730](http://www.mckinseyquarterly.com/Measuring_performance_in_services_1730)  
<http://www.toronto.ca/progress/reports.htm>  
<http://www.orau.gov/pbm/documents/overview/whymasure.html>  
[http://www.turningpointprogram.org/Pages/pdfs/perform\\_manage/pmc\\_guide.pdf](http://www.turningpointprogram.org/Pages/pdfs/perform_manage/pmc_guide.pdf)  
<http://www.netmba.com/operations/process/analysis/>

## **Unit 14: Yield Management in Services**

### **CONTENTS**

Objectives

Introduction

14.1 Yield Management

14.2 Capacity Management

14.3 Summary

14.4 Keywords

14.5 Review Questions

14.6 Further Readings

### **Objectives**

After studying this unit, you will be able to:

- Elaborate the concept of yield management
- Explain the role of strategies for productivity
- Discuss the capacity management concept

### **Introduction**

Managing productivity is yet another strategic issue in service organisations. In fact, it is said that services are not produced, rather they are performed. Nonetheless any service operation has some capital investment and operating costs. Therefore, in service organisations the productivity issue can't be overlooked. As early as 1974, Rathmell emphasized the need of productivity in service organisations. Today it is recognised to such an extent that it has become a major strategic issue in all service organisations.

### **14.1 Yield Management**

Productivity is usually described as the ratio of output of a production process to an aggregate value of inputs. Such a concept of productivity revolves around two basic assumptions. First, the factors of output are perfectly defined so that they can be measured and second, the utility of output is not questioned.

This concept of productivity has been developed on the basis of experiences in the manufacturing sector. However, services are basically different from goods in the following ways:

- Services are performed and not produced
- Service facilities must exist before they are used
- Services can't be stored
- Quality varies in services sector
- Consumers are an integral element in service productivity.

All such factors complicate the issue of productivity measurement in services sector. Nonetheless the relevance of productivity management can't be overlooked.

The other problem in services sector is that lower productivity is influenced by a number of factors which are unique to services industry. For example, service industry is more labour intensive as against the manufacturing sector, which is capital intensive. In services industry, if you have to achieve higher output, you have to proportionately increase the workforce. The second problem is that of fewer opportunities because of economies of scale, lack of labor specialization and dependence on the human element. The third problem is the size of service operations. A number of service organisations are run by a handful of people. A nursing home, a lawyer, a consultancy service are some such examples. Here neither is division of labor possible nor specialization. All these problems make the task of managing productivity much more challenging in service organisations, and therefore it is considered to be a major strategic issue.



*Did u know?* Since service organisations entail capital investment, productivity cannot be overlooked?

### 14.1.1 Yield Management Process

Yield management is an answer to the complex problem of optimising prices to maximise revenue and profits. To be effective, it requires three basic steps.

#### Step 1: Analyse Competition

***Carefully evaluate competitive strengths and weaknesses.***

In step one, competitive data is analysed to illuminate pricing strengths and weaknesses. A yield management system prepares competitive data, such as in-store pricing, Internet pricing, market share, trade areas, etc. for business analysis. Because this information is not 100 percent available, the yield management system must provide a means for making educated assumptions about areas where little or no competitive data is available. It must also provide a means for helping the user qualify sales data for accuracy before using it as a metric in business decisions.

Not all competitive prices have the same “weight” in the market, and not all competitors price each store alike, even within the same market. Each competitor has a distinct trading area, client base and cost structure that overlap with competitor trading areas, including the Internet. The mix of competitors and their respective differing strategies complicates the process of understanding competitive strengths and weaknesses. The yield management system allows complexity to be managed by the computer, helping the user to visualise competitor’s pricing strategies and enabling the user to focus on strategy, goals and exceptions instead of the details.

#### Step 2: Understand Consumer Demand

***Accurately measure how customers value products; in so doing, quantify the relationship between price and unit sales movement.***

In step two, historical sales data, the purest form of communication a retailer has with its customers, is analysed to measure consumer trade-off decisions. When properly analysed, this data can reveal how customers actually respond to price changes, promotions and other aspects of a retailer’s value proposition.

#### **Yield Management: More than Just Price Elasticity**

Price elasticity is defined as the relationship between price and unit movement for a single product. Each time a customer makes a purchase, that purchase constitutes one data point. With multiple data points, it becomes possible to predict the unit movement for a product at a given

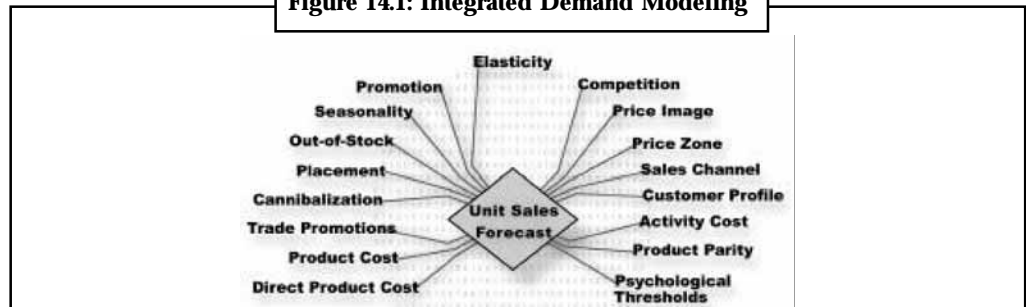
**Notes**

price. The problem for retailers is that when price changes do occur, they are typically very small and accompanied by a promotion or some other event. Analyzing the impact of a price change without the knowledge of other factors that influence unit sales movement is likely to lead to erroneous predictions.

**Integrated Demand Modeling: Analyzing Price, Promotion and More...**

Yield management expands the definition of price elasticity by integrating the major factors that influence unit sales movement (i.e. price elasticity, promotion elasticity, seasonal trends, competition, cannibalism, etc.) into one analysis, creating one sales forecast. By integrating multiple factors into one analysis, the yield management system enables a retailer to understand demand in the absence of frequent or large price changes. It also stabilizes the analysis so it can be performed at the lowest levels of demand (i.e. store, SKU, customer profile or day of week).

**Figure 14.1: Integrated Demand Modeling**



**Quantifying a Retailer's Competitive Price Image**

Once the yield management system has performed a rigorous analysis of a retailer's sales history and competitive data, it then combines variables such as item elasticity, competition, movement velocity, contribution and promotional lift with sophisticated algorithms to measure a retailer's price image. The resulting analysis and graphs provide a retailer with a visual representation of how it is positioned in the market relative to its competition. This understanding is used to refine a retailer's price image (if desired), which is then used in the yield management system as a parameter for guiding the price optimization process.

**Step 3: Align Pricing with Enterprise Objectives**

***Continually align pricing with enterprise goals for profit, revenue and competitive price image.***

In step three, executives are given visibility to the trade-off between enterprise revenue and profit goals, based on customer demand and market dynamics. Strategic decisions are made and prices are optimized to meet the enterprise objectives, generating specific SKU-level pricing instructions for an assortment of selected products. Whereas traditional pricing systems perform price elasticity analysis, leaving it to the user to handcraft the final pricing decision, yield management is a strategic platform that looks at the category as a whole, generates specific instructions and is driven by enterprise and category-level financial goals.

**Figure 14.2: Revenue Management provides visibility to the trade-off between Enterprise Revenue and Profit**





**Yield Management: More than Just Price Optimization**

Notes

Price optimization has primarily been associated with two possible connotations in the retail industry: markdown optimization, where a fixed inventory of perishable products (e.g. apparel) is subject to a declining series of prices to zero-out inventory by a certain date; or, charging the highest price possible for a product. The former defines a narrow application for perishable inventories. The latter is neither appropriate to, nor implemented within, yield management systems.

Price optimization as a component of yield management is expanded to reflect desired long-term price image, revenue and profit objectives and inherent SKU-level price elasticity – enabling retailers to produce a win-win relationship for themselves and customers. It reflects interaction between SKUs across the category and the interaction between distribution channels.

**Goal Management: Making Prices Work Together**

At the heart of yield management lies the ability to manage multiple, and sometimes conflicting, objectives. For example, senior management may set an objective to increase profitability by 5 percent. Simultaneously, a store in a competitive region may have an objective to maintain category market share against an aggressive competitor, and a product manager may have a vendor sales objective to win trade incentive dollars. Goal management balances these objectives and more with demand and market dynamics to pinpoint prices that work together to achieve company objectives. It does this while respecting item-level pricing policies.

**14.1.2 Strategies for Productivity**

Nevertheless, many suggestions for improving productivity can be put forward. Cowell has summarized these points which include improving staff performance through training, introduction of technology into the system, reducing service levels, substituting products for services, using customers in service production and reducing the mismatch between supply and demand.

**Improving Staff Performance through Training**

The staff in contact with the customers provides a visible element of the service. They should be trained to provide better service not only through hard work but also with skills. This would result in better productivity and also higher customer satisfaction.

**Introducing Systems and Technology**

A classic by Levitt, *'Production-line Approach to Services'*, recommends that service companies should industrialise their services and adopt a manufacturing attitude towards producing services. He observed that service industry executives should begin to think seriously that they are actually manufacturing products. They would then ask what technologies and systems are required, what machines can replace people, what systems are needed in place of serendipity.

Levitt further suggested that for industrialization of services, technology can be applied in three ways. First is the hard technology, which implies substituting machinery for people (e.g. airport surveillance of baggage with x-ray equipment). The second, he called, the soft technology which implies substituting pre-programmed systems for individual service operations (e.g. fast food operation). The third he identified as hybrid technology which implies combining the above two, i.e. equipment with planned systems to gain greater order, speed and efficiency.

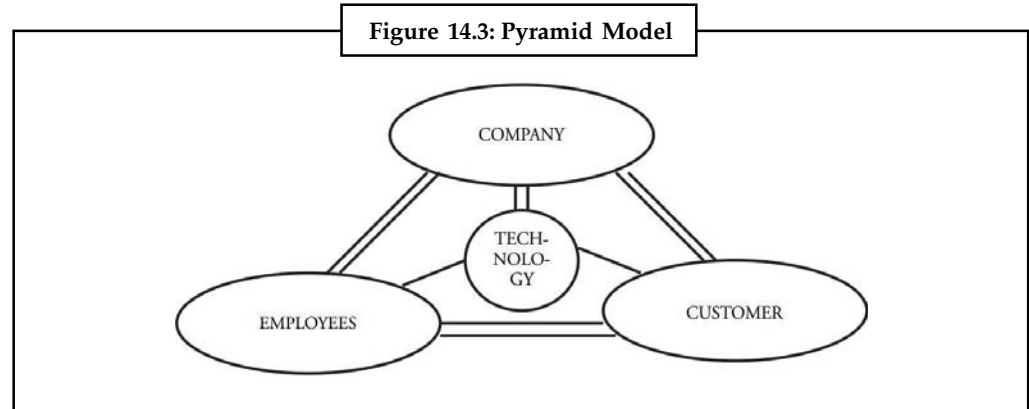
Parsuraman extended the Geronross' three stage model of external, internal and interactive marketing where the introduction of technology as a service delivery option adds a whole new dimension (Figure 14.3). He observed that a haphazard introduction of customer-contact

**Notes**

technology can backfire by frustrating customers and fostering distrust.

Therefore, appropriate technologies and systems should be introduced not only to gain or retain customers by effective delivery mechanism but also to gain productivity.

Biema and Greenwald expressed similar views. They identified that the primary reason why the productivity growth rate has stagnated in the service sector is poor management. They also suggested that by putting the existing technologies, labor force and capital stock to work, managers can raise productivity growth rates considerably.



Source: A. Parsuraman, Augmented Marketing, Business Today, Jan. 7-21, 1997

**Self Assessment**

Fill in the blanks:

1. The staff in contact with the ..... provides a visible element of the service.
2. Productivity is usually described as the ratio of output of a ..... process to an aggregate value of inputs.
3. Managing productivity is yet another strategic issue in ..... organisations.
4. As early as ....., Rathmell emphasized the need of productivity in service organisations.
5. The factors of output are perfectly defined so that they can be ..... and second; the utility of output is not questioned.

**Reducing Service Levels**

Productivity can be improved by reducing quality of service (e.g. a doctor can give less time to a patient and the preliminary investigations or patient’s history can be documented by a junior doctor). But here one has to strike a balance between quantity and quality of service delivered.



*Did u know?* As a strategic tool, one can differentiate their services by broadening the quantity and thereby quality.

**Substituting Products for Services or Adding New Services**

One can increase productivity by increasing number of services. For example, Department of Post introduced courier service and followed it by introducing the non-document courier service thus adding to their services. A hotel can add parties and marriages to their banquet services to introduce productivity.



*Did u know?* If customer contact employees do not have adequate training to handle the technology, it would be difficult to deliver the service.



Caselet

### **Case: Will the Expansion Strategies of Tata Steel Pay off?**

**T**ata Steel had been a flagship company of Indian conglomerate Tata Group. By 2006, Tata Steel was the world's 55th largest steel company with production capacity of 9 million tones (MT). Though it had been exporting to various countries for the past 25 years, it had yet to prove itself on the global scale. Tata Steel had an objective to increase its production capacity to more than 30 MT and become a global company by 2015. Starting its journey on the global growth path, Tata Steel made two major acquisitions namely, Singapore based NatSteel in 2004 and Thailand based Millennium Steel in 2005. In October 2006, Tata Steel made a bid to acquire the world's 9th largest steel company, UK based Corus Group. If approved by Corus shareholders, the deal would create the world's fifth-largest steel firm and the largest Indian takeover of a foreign company. Besides, Tata Steel had plans of capacity expansion in various countries through various projects. However, the deal to acquire Corus was not finalised yet, as it took a new turn when Brazil's CSN (Companhia Siderugica Nacional) approached Corus' board with a higher offer than Tata Steel. Critics of Tata Group's globalisation spree argued that the group had intended to overpay for overseas acquisitions. Moreover, Ratan Tata, who had been leading Tata Steel for more than 12 years, would retire in 2007 at the age of 70. The case highlights the globalization aspirations of Tata Steel and the challenges ahead. It traces the journey of Tata Steel from domestic company to global entity. The case presents a dilemma; would Tata Steel be able to realise its ambitions of putting its brand name on the world map in the volatile steel industry? How successful would its expansion strategies be?

**Source:** [http://www.ibscdc.org/case-catalogues/Strategy\\_Case\\_Studies\(Catalogue\\_II\).pdf](http://www.ibscdc.org/case-catalogues/Strategy_Case_Studies(Catalogue_II).pdf)

### **Customer Interaction**

Involving the customer in the service delivery process in place of your own employees can enhance the productivity, e.g. a self service restaurant. However, there could be situations where the customer is willing to pay more rather than 'waitering' himself. Hospitals are such examples where customers don't want to participate in the production of services but want to leave everything on the hospital staff.



*Note* One has to understand consumer behaviour and the causes of such a behaviour before educating and expecting the customer to participate in the production process.

Lovelock and Young in an article, "Look to Consumers to Increase Productivity" observed that in many services, attempts to improve productivity are likely to fail unless the support of consumers can be secured. On the contrary, many service organisations, in their search for operating efficiency, see consumers as a nuisance, a constraint and a barrier to productivity. Taking five different examples where service organisations tried to improve productivity by automation, self-service operations, uniform product code, uniform postal code and promoting

**Notes**

low demand time, Lovelock and Young observed that consumers resisted the change. Therefore, productivity related changes must be identified and implemented from the consumer's viewpoint. They further observed that insensitivity towards customers can be avoided by observing some of the following suggestions.

First, develop customer trust in the productivity related changes through a systematic and planned communication programme. Second, understand customer's habits and understand determinants of consumer behaviour. Zeithaml observed that consumer evaluation processes of services are different from goods. Arising out of the unique characteristics of services of intangibility, non-standardization and inseparability leads them to possess high level of experience and credence properties which makes them more difficult to evaluate than goods. Third, pre-test new procedures and technology before commercially introducing the same. This would not only save substantial investment but also your existing markets. Also your communication strategy should provide the benefit to the customer to stimulate trial and by doing this you can win the consumer's acceptance. Fourth, educate consumers about how to use service innovations – simply installing them may be insufficient. And finally, productivity improvement is not a static process but a dynamic one which occurs over time. Therefore, monitor and evaluate performance periodically.



*Did u know?* Involving the customer in delivery process can enhance productivity.

**Self Assessment**

Fill in the blanks:

6. Involving the ..... in the service delivery process in place of your own employees can enhance the productivity.
7. .... related changes must be identified and implemented from the consumer's viewpoint.
8. One can increase productivity by increasing number of .....
9. As a strategic tool, one can ..... their services by broadening the quantity and thereby quality.
10. Many service organisations, in their search for operating ....., see consumers as a nuisance, a constraint and a barrier to productivity.

**14.1.3 Reduce Mismatch between Supply and Demand**

The concept of de-marketing (Kotler) suggests a strategy to discourage the customers on a temporary or permanent basis to achieve synchronisation between the demand and supply. He used a term 'sycro-marketing' for such an exercise. The strategy should be either to manage demand or supply or both.

Sasser suggested some basic strategies to alter demand so as to fit it within the available capacity. In such situations where capacity is restricted, the four strategic options are as follows:

1. Developing off-peak pricing schemes
2. Non-peak promotion and demand creation
3. Developing complementary services
4. Creation of reservation system

Developing off-peak pricing schemes will help in shifting the demand from peak periods to non-peak periods. Resorts and hotels do offer off-season packages to shift the demand and even the telephone corporations have differential pricing to shift demand to non-peak hours. Retail chains or departmental stores offer straight discounts on the total bill if purchases are made during non-peak hours.



*Note* Part-time employees is one of the solutions to increase capacity

However, such a strategy may not always work. It has also been observed that organisations, during the slack season, impart training their staff, do maintenance of equipment, clean premises to prepare for next season. During this period if demand builds up, there are chances of customers walking out dissatisfied. It might even affect the business in the peak season because of negative word of mouth.

Another method, which can help in shifting demand from peak period, is developing complementary or facilitating services. Such services would not only attract consumers away from bottleneck operations at peak times but might also provide an alternative service while they are in queue for the capacity restricted operations.

For example, at a casino, a lounge with wide screen television showing some exciting movie or a bar would shift some of the tourists from restricted capacity service operations. Such a strategy would not only give additional revenue but also an opportunity to differentiate the service offer from the competitors.

Lastly, the reservations strategy can also help in managing demand and, thus, customer satisfaction.

Table reservations in a restaurant, reservation of cinema tickets in advance are some examples of such a strategy.



*Caselet*

### **Case: Indian Railways –The Juggernaut Turns Around**

**I**ndian Railways (IR), a state-owned railway company, had a near monopoly in the country's rail transport. It was also the second largest with 63,028 route kilometers, 108,706 track kilometers and busiest rail networks in the world. IR was the world's largest commercial utility employer, with more than 1.6 million employees. A legacy from the British rule, IR had been a socio-economic entity, striving to achieve its justifiable economic existence. With the liberalisation of Indian economy since 1991, the policies of the railways became obsolete. To become economically viable in the competitive era, IR faced hurdles like duality of objectives, hazards of safety considering its organisational size and the emergence of competition from other means of transport like airlines, particularly low cost airlines.

In 2001, IR was written off as the burgeoning responsibility for the government. Experts opined that by obliging to political and social agendas, IR failed to utilise its capacity and achieve its profit goals. Amidst criticism, IR stabilized its financial situation in 2002-03. In 2004, Laloo Prasad Yadav (Lalu), a famous political leader, was given charge of Ministry of Railways, one of the most sought after portfolios in the government owned utilities of India. He proved to be a dark horse, as under his leadership, IR adapted and implemented cost effective strategies to raise the revenues. For the first time the passenger fares and freight rates were not hiked to increase revenues but the, per train load was increased by

*Contd...*

**Notes**

4-5 tones on selected tracks to yield higher revenue. Such measures combined with a “value for customer” philosophy and considerations of IR as an economic enterprise, were elementary in bringing about Indian Railways’ turnaround. The Railway Budget 2006-07 had great plans for expansion and growth for railways and a landmark Dedicated Freight Corridors.

But the critical question was with the change in political scenario or with the end of tenure of the incumbent government, would IR still be able to sustain its unprecedented performance in the future?

**Source:** [http://www.ibscdc.org/case-catalogues/Strategy\\_Case\\_Studies\(Catalogue\\_II\).pdf](http://www.ibscdc.org/case-catalogues/Strategy_Case_Studies(Catalogue_II).pdf)

## **14.2 Capacity Management**

The other set of strategic options are related to managing capacity and controlling the supply side by selecting out of the following strategic options:

1. Using part-time employees
2. Increasing efficiency of existing personnel involving customers
3. Sharing capacity with others
4. Investing in expansion options.

At a resort hotel, local students can be engaged during peak seasons to cater to the customers. The most appropriate example is management institutions which run their regular courses with part-time/guest faculty.

The other option is to maximise the efficiency of existing employees by imparting training. By training the staff in multiple functions, most employees can be engaged in essential tasks of delivering the service during peak hours and the support tasks are deferred to slack periods. A smaller hotel can successfully use this method where a handful of people can provide room service, housekeeping and restaurant service.

The third method is that the consumers participate in delivery of service and, thereby, lower the labor requirements of the producer. Self service groceries floor or restaurants are examples of such a strategy.

The fourth method is that of sharing capacity with others rather than creating capacity in-house. Hospitals, for example, participate with pathological labs, X-ray clinics, CAT-scanning labs, etc. rather than investing in expensive equipment themselves. Even restaurants are selling branded ice creams rather than investing in ice cream making facilities in-house.

Lastly, of course, is the option of increasing capacity by investing in expansions so as to cater to the increase in demand. This strategy is best suited if the increase in demand is of a permanent nature.

Although productivity would result in better profitability, service managers should not push it so hard that quality is affected in some or the other way. It might be that the quality delivered is the same but the customer has perceived a reduction in quality. Therefore, one has to balance out between productivity, standardized quality and customer.

## Self Assessment

## Notes

Fill in the blanks:

11. The concept of ..... (Kotler) suggests a strategy to discourage the customers on a temporary or permanent basis to achieve synchronization between the demand and supply.
12. Although ..... would result in better profitability, service managers should not push it so hard that quality is affected in some or the other way.
13. By training the staff in multiple functions, most ..... can be engaged in essential tasks of delivering the service during peak hours and the support tasks are deferred to slack periods.
14. Another method, which can help in ..... demand from peak period, is developing complementary or facilitating services.
15. .... suggested some basic strategies to alter demand so as to fit it within the available capacity.



Case Study

### **Case: Technology as a Tool for Decisive Competitive Advantage Catch 22 dilemma**

**S**BI had embarked 5 years ago on a massive technology plan with the intention of computerising all its 13,649 branches (from 2,700 in 2002 to all by 2005) and significantly networking its branches. Today, it has one of the largest networks of 4250 ATMs at 1398 centers. Its plan: 3800 branches by 2005 and later 6800. It has one of the most ambitious connectivity blueprints in the world – through fiber optic cable and satellite hook-ups around a central server. Moreover, it is also becoming aggressive in retail businesses like mortgages and credit cards. However, slow pace of technology adoption and the overhang of lower spreads, high operating expenses and higher provisioning are expected to impact the banks near term profitability. Rapid implementation of the proposed technology plan will hold the key to SBI's long-term competitiveness.

**Para-banking:** American Express, MasterCard and then Visa used satellite technology to track purchases made through cards, and also payments. The credit card technology included a quick card verification system, magnetic identification documentation (ID), and online payment systems. The credit verification is done through the Electronic Data Capture (EDC) machines (Verizon and Verifone are companies that supply EDC machines to India) which the retailers have as a dedicated telephone line link. The connectivity is courtesy the card companies leasing it out to the retailers. It has changed the way people shop, made them carry less cash, and greatly facilitated the conduct of business for banks, card companies as well as retailers. It has helped the card companies to become global brands.

#### **Education**

DIRECWAY - The new experiment in education:

A recent phenomenon in distance and online education system, Direcway used technology to have a broader catchments area. The partners to the venture are:

- Hughes Software Systems, a former subsidiary of General Motors, and a leader in satellite communication technology provided the technology systems.

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Notes

- Escorts Education which is an investment of the tractor-and-auto major Escort Group (owned by the Nandas) also has other ventures in education and healthcare (Escorts Heart Research Institute). They were the Indian partners who put up the seed capital.
- Indian Institute of Technology, Kharagpur,
- Indian Institute of Management, Kozikode,
- Xavier Labour Relations Institute, Jamshedpur.

The last three were content developers and suppliers, giving faculty support. Direcway offered degrees in Business Management, Computer Application, etc.

**The process of service delivery is unique:** Franchisees from all over India are connected by V-SAT systems (satellite) to the nodal centre in New Delhi. At the nodal centre, a faculty takes a normal class using all his normal pedagogical tools. The only difference is that he does it in an empty classroom. All he addresses is a TV camera which broadcasts his live and online his lecture to all the franchisees. At the franchisees' place, the students sit in front of TV/computer consoles/monitors and all hear and see the professor at the same time. If any student has any query, he presses a button in front of him, attached to his console, and the professor is alerted. The monitor in front of the professor shows a still photograph of the inquiring student and his identification. The professors, and all students, are able to only hear the query. All students who are attending classes, all over India, will be seeing and hearing the same exchange at the same time. When the professor is ready with his reply, he presses a button and now he is back in focus and on broadcast.

The Direcway case proves that the inseparability factor that plagues marketing can be sought to be overcome by technology and lots of cooperation from channel partners.

**Post Script:** Narsee Monjee Institute of Management Studies and Research, now a deemed University, has gone ahead in introducing an online, full time post-graduate course in Business Management with the help of Direcway.

- **Calculate tariffs:** Through the CRS, the passengers' flight plan could be mapped and his tariffs calculated exactly and as per the plan with the prevailing rates. This included taking into account the intricate details of the passengers' itinerary, food components, and add-ons and also had all the details of his journey. Previous benefits accrued to the passengers like frequent flyer and other loyalty programmes were taken into account automatically.
- **Do reservations:** The reservations for the complete journey – round trip or otherwise—can be made through the CRS. It can show the passenger the seating choices available in all airlines of his choices, in all flight plans including the connecting ones. A three-dimensional computer generated picture will reveal the seating arrangements, if required. Passenger details, preferences for food and drinks could all be entered to help the airline personnel – whether inside the aircraft or in the airport – give better service and personalised care. This included seating choices, food choices (very crucial and important for Indian passengers having a sizable percentage of vegetarians)
- **Logistics:** Package delivery firms like FedEx/DHL/Airfreight have increased their productivity and become global players by installing advanced computer technology. They can track packages and documents accurately. Their drivers have electronic clipboards that include a stylus and a pressure-sensitive receipt pad. The clipboards allow them to track shipments and help them in speeding up the collection of receivables.

Contd...



**Firms will always suffer from the Catch-22 dilemma:** Adopt technology for decisive competitive advantage; but development of technology can make goods and services obsolete, too. At the same time, it can also be instrumental in creating an entire industry and a market. The personal computer is a case in point. It has created an entire industry and developed new market opportunities.

**Question:**

What should be kept in mind is that management of new age technologies is an ongoing affair?

### 14.3 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- There are major ways in which improvements in productivity can be brought out: Improving staff performance through training, Introducing systems and technology, Reducing service levels, Customer interaction, managing capacity by controlling supply.
- In certain service organisations the capacity is fixed and it is rather difficult to increase the same as the industry might be capital intensive.
- It could also be that demand exhibits a certain seasonality pattern.
- In such service organisations, one of the major marketing challenges is demand management.
- It might be generating demand during low demand periods or shifting demands to low demand periods during peak hours, when demand exceeds capacity.

### 14.4 Keywords

**Productivity** is usually described as the ratio of output of a production process to an aggregate value of inputs.

**Demand:** An economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service. Holding all other factors constant, the price of a good or service increases as its demand increases and vice versa.

**Supply:** The total amount of a product (good or service) available for purchase at any specified price.

**Yield:** The income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

**Productivity:** Productivity equals value divided by time.

**CRS:** Computerised Reservation System

### 14.5 Review Questions

1. What do you understand by 'productivity' and how is it relevant in a service organisation?
2. Is it possible to improve productivity in an organisation where employees are not willing to cooperate? Give justification to your answer by taking the case of a specific service organisation.
3. Visit a nearby star category hotel and identify what methods it adopts to manage productivity when the demand for its services goes up during the wedding season.

**Notes**

4. Interview the manager of the bank in which you have a savings account and find out whether the “teller system” helps it in serving more customers. Identify the number of customers normally served in a day through both the methods.
5. Define the concept of yield management.
6. Elaborate the term capacity management.
7. The set of strategic options are related to managing capacity and controlling the supply side by selecting out of the number of strategic options. What are they?
8. Discuss the strategies for productivity.

**Answers: Self Assessment**

1. Customers
2. production
3. service
4. 1974
5. measured
6. Customer
7. productivity
8. services
9. differentiate
10. efficiency
11. de-marketing
12. productivity
13. employees
14. shifting
15. Sasser

**14.6 Further Readings**



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Online links

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