

## Service Management Course

### **Introduction**

The economic activities have been divided into mainly three classes. They are – Primary, Secondary, and Tertiary. Primary activities includes – agriculture, fishing and forestry. Secondary activities includes – industry ( manufacturing and construction ). Tertiary activities includes services. Up to the industrial revolution, agriculture was dominated in economic sector. After the industrial revolution, industry started to dominate the economy and presently service sector dominate the whole economy of world. The economic growth is not equal in all countries. In many Asian and African countries, agriculture is still the dominant factor of their economies. At the same time there are some countries with industry as the dominant factor of their economies.

### **Service**

According to the economic point of view a service is an intangible commodity. That is, services are an example of intangible economic goods. A 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 physical product.

*Examples:*

- Education service
- Insurance service
- Banking service
- Film Theater
- Medical service
- Telecommunication service
- Legal service

### **The Service Economy**

Presently the world economy is increasingly characterized as a service economy. This is primarily due to the increasing importance and share of the service sector in the economies of most developed and developing countries. In fact, the growth of the service sector has long been considered as an indicator of a country's economic progress. Economic history tells us that all developing nations have invariably experienced a shift from agriculture to industry and then to the service sector as the mainstay of the economy. This shift has also brought about a change in the definition of goods and services themselves.

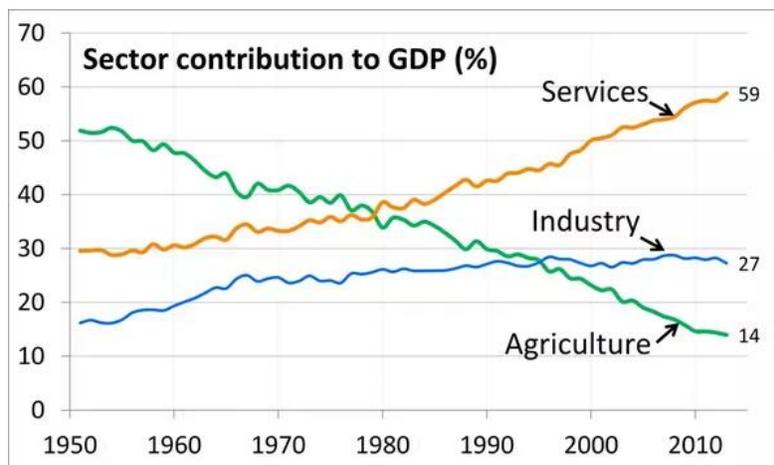
The service sector is going through revolutionary change, which dramatically affects the way in which we live and work. New services are continually being launched to satisfy our existing needs and to meet needs that we did not even know we had. Nearly fifty years ago, when the first electronic file sharing system was created, few people likely anticipated the future demand for online banking, website hosting, or email providers. Today, many of us feel we can't do without them. Similar transformations are occurring in business-to-business markets.

### **The Role of the Service Economy in Development**

As of 2008, services constituted over 50% of GDP(Gross Domestic Product) in low income countries. As their economies continue to develop, the importance of the service sector continues to grow. For instance, services accounted for 47% of economic growth in sub-Saharan Africa over the period 2000–2005, while industry only

contributed 37% and agriculture only 16% in that same period. This means that recent economic growth in Africa relied as much on services as on natural resources or textiles, despite many of those countries benefiting from trade preferences in primary and secondary goods.

As a result of these changes, people are leaving the agricultural sector to find work in the service economy. This job creation is particularly useful as often it provides employment for unskilled workers in the tourism and retail sectors, which benefits the poor and represents an overall net increase in employment. The service economy in developing countries is most often made up of the following industries: financial services, tourism, distribution, health, and education.



Service sector dominates the economies of other developed nations as well. As countries develop, the role of agriculture in the economy declines and that of services rises. Highly developed countries all have more than 50% of GDP and employment derived from services. A particular characteristic of the development of service employment over time is that it is less sensitive to business cycle fluctuations than other types of employment. The service sector comprises 80% of US employment, up from 55% in 1950. Most of the absolute growth in number of jobs in US in recent years is in service sector. According to University of Michigan study, a 113" cut in global barriers to trade in services would increase US annual income by \$150 billion (\$ 2,100 per American family of four). Total elimination of barriers in services would raise US annual income gain by over \$ 450 billion (\$ 6,380 per family of four). Apart from US, leaders of major global service industry associations representing the EU, Australia, Hong Kong, and Japan called for urgent progress in the multilateral liberalization of trade in services.

### Characteristics of services

Services have mainly five unique characteristics compared to goods. In the marketing point of view these characteristics are very important, because these characteristics create several unique marketing problems.

1. Intangibility
2. Inseparability
3. Heterogeneity
4. Perishability
5. Ownership

## ***1. Intangibility***

Intangibility is the primary characteristics that distinguish services from goods, ie the quality of not being able to touch, taste, see, smell or hear. Services such as education, insurance, medical etc cannot be physically possessed like tangible goods.

Intangible services are more difficult for consumers to evaluate than tangible goods. When you buy bath soap, you can see it, feel it, touch it, smell it and use it to check its effectiveness in cleaning your body. But if you pay fee for a course in an education institution, you are paying for the benefit of deriving knowledge and education which is delivered to you by teacher community. In contrast to the bath soap, where you can immediately check its benefits, there is no way in the case of teachers. Because teaching is an intangible service.

So a service cannot be touched

- Precise standardization is not possible
- There is no ownership
- A service cannot be patented
- There is no inventories of service

## ***2. Inseparability***

Another characteristic of services is the inseparability, or indivisible nature of production and consumption. In most cases, a service cannot be separated from a person or a firm providing it. A service is provided by a person who possesses a particular skill (singer), by using a equipment to handle a tangible product (dry cleaning) or by allowing to access t or use of physical infrastructure (hotel). A plumber has to be physically present to provide the service. Goods can be produced in the factory, stocked and sold when order is placed. But since service is inseparable, both production and consumption occurs simultaneously.

## ***3. Heterogeneity***

Most of the services are rendered by people, and people are not always consistent in their performance. This inconsistency or variation in performance is referred to as the heterogeneity of services. Performance may vary from one individual to another individual or from one organization to another organization or even performance of a person in day time may not be same in night time In short the human element is very much involve in providing and rendering services and this makes standardization a very difficult task.

## ***4. Perishability***

Services cannot be stored and are perishable. Due to any reason, a few seats remain empty on a train, or a theatre cancels a particular live show of a drama, that particular service opportunity is lost forever. Restaurants are now charging for reservations which are not utilized. Charges may be made for missed appointments with consultants doctors and some education institutions levy the fee as students discontinue the course because of lapsing the seat.

## ***5. Ownership***

When you buy a product, you will become the owner of that product- be it a car, bus, bike, pen, computer or shirt. But in the case of service, you may pay for its use, not its ownership.

## Classification of services

Services are classified into two groups, ie services in consumer markets and services in industrial market.

### 1. Services in consumer markets

The following services come under this category.

- a) *Food services* - Food services are offered by hotels, restaurants and catering services. Food is supplied in restaurants as well as delivered to customers' residence. Catering agents supply food for occasions like wedding, engagements, birthday, conference etc.
- b) *Boarding and lodging services* - These services are provided by hotels and lodges to the people who travel to distant places. Growing tourism has contributed to remarkable growth in boarding and lodging services.
- c) *Personal care services* - These are the services provided to meet the personal care needs of customers like health, appearance, physical fitness etc. personal care service include service offered by beauty parlors, barbershops, gymnasiums, dry cleaners hospitals etc.
- d) *Entertainment services* - These services include cinema, drama, dance, music, amusement park, cable,TV etc. There is an increasing tendency among the people to spend more money on entertainment services.
- e) *Transport services* - These include the services provided by railways, road transporting facilities, air transport such as flights and helicopters and water transporting services such as ships and boats.
- f) *Automobile services* - These are services provided to the owners of automobile vehicles for their repair and maintenance. They are provided by units called service stations.
- g) *Communication services* - These are services provided to help people to exchange information. These services include telephone, telegraph, e-mail, telex, fax etc. mobile phone and internet has revolutionized the field of information communication.
- h) *Education services* - Education service provide coaching to students in various disciplines and to prepare them for various examinations. These services are provided by schools, colleges and universities.
- i) *Insurance services* - Insurance services are provided to protect people against the risk of loss of life and properties. Insurance companies sell various insurance policies in the field of life insurance and general insurance. They provide a sense of security to the policy holders.
- j) *Financial services* - These are the services provided to the people to meet their varied financial needs. They are performed by various financial institutions like banks, NBFCs, Chitty companies, stock brokers, mutual fund companies etc. Their services include keeping of deposits, providing various types of loans, discounting bills, hire purchase financing stock broking etc.

### 2. Services in industrial market

The following services come under this category.

- a) *Financial services* - Finance is essential for carrying out business operations. Companies require both short term and long term finance. This finance is provided by commercial banks, merchant banks and other financial institutions. Investment companies guide firms in investing in share and bonds.
- b) *Insurance service* - All business units are exposed to variety of risks. Insurance companies provide necessary protection against risk such as fire, marine losses, theft, accidents etc.

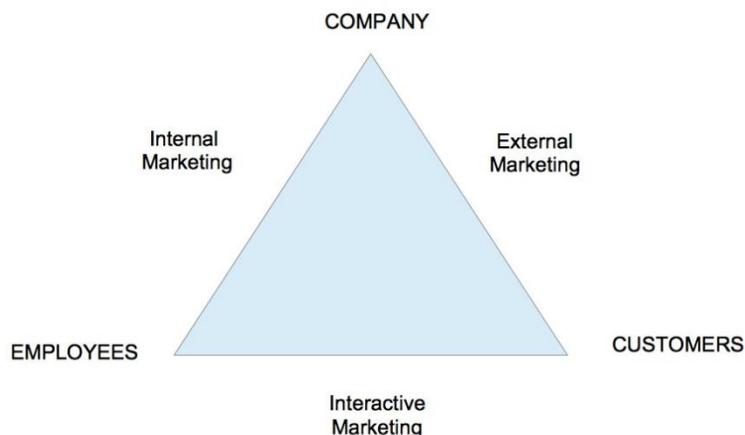
- c) *Transport services* - Business units require transport services for moving men and materials to the factory and men finished goods from factory. These services are provided by various transport companies by means of trains, trucks, buses ships aero planes etc.
- d) *Ware housing service* - Warehousing services are required for keeping materials and finished goods until they are needed for use. Warehouse in public sector and private sector offer these services to the business units.
- e) *Advertising services* - Advertising is the most commonly and widely used mode of promotion. Advertising agencies help the businessmen to plan and implement advertising campaigns. They also help to study the effectiveness of advertising.
- f) *Consultancy services* - Consultancy services refer to advice given to management on various matters such as production, marketing, finance etc. Most of the business units especially small and medium sized depends on management consultancy firms to solve their problems.
- g) *Office services* - Several types of services are required for the efficient functioning of business offices. These include Xeroxing, scanning, cleaning etc.
- h) *Engineering services* - Engineering services include assistances given to business units in planning new projects, designing plants, construction of buildings, erection plant and machinery etc. these services are provided by specialized engineers.
- i) *HR services* - HR services considered as the most important asset of a business concern. Proper selection and training of man power is essential for organizational development. Selection and training is often entrusted to specialized recruitment agencies.

### Service Marketing Triangle

According to Philip Kotler, service marketing requires both external marketing and internal as well as interactive marketing.

- External marketing
- Internal Marketing
- Interactive Marketing

### Services Marketing Triangle



## 1. External Marketing

In an external marketing, marketers interact directly to the end users. They try to understand the need of customers and satisfy them after fulfilling their demands. In an external marketing, marketers set the pricing policies and create awareness about the products and design promotional strategies and techniques that help to attract the customers towards their products and services. They communicate with their customers directly and convince them to buy their products. They involve in constructive group of activities that helps to design excellent products that meet the customer's demands efficiently. Their goal is to create awareness about their products or services among users by communicating with them directly. They also grab the attention of the market and produce interest in their services.

External marketing is one of the important parts of service marketing triangle.

## 2. Internal Marketing

In an internal marketing, marketers try to interact with their employees in order to know about the strengths and weaknesses of their organization. The owner of the company tries to involve all of his employees in general discussion, believe on teamwork. Internal marketing involves general discussions, teamwork, training, motivation and rewards on best performance. Employees communicate with themselves on specific project. Teamwork helps to involve employees in their assigned tasks and generate output quickly.

Organizational rewards motivate employees to make their performance effective. All employees understand the goals and objectives of the company clearly and try to meet organizational goals. They also know how to grab the attention of their customers.

Customers are highly satisfied with their products or services. They always try to satisfy their clients at any cost. If employees of the company are satisfied with their job and performance rewards, they can become an effective asset of any organization. Executives of the organizations fully understand the service marketing triangle if they want to gain a competitive advantage in the market.

## 3. Interactive Marketing

Interactive marketing involves in the delivery of products or service to the customers and front –office employees of the company. It is the most important part of the service marketing triangle because it establishes a long term or short term relations with customers.

Customers who are highly satisfied with their products or services can become regular customers of their brand. Marketers who cannot compromise on quality and deliver high quality products to their customers have a great community of loyal customers. Their loyal customers always prefer them to buy products.

Service marketing triangle has great importance and its components are essential in the success of any business. A well established business always follows the strategies of service marketing triangle. Today, marketers who know how to remove the company's weaknesses and increase the strengths and assets are market leaders. They are aware of external threats and opportunities that boost up their business. They also know how to communicate with their customers, clients and employees in order to achieve organizational goals.

## Consumer Behavior in service

All of us buy different services for various reasons. One person may prefer to go to a restaurant for good food while the other may opt for an exclusive restaurant, for status. One person may prefer to read 'The Times of India' early in the morning, while the other may prefer to read the same newspaper after coming back from the office. There are women who don't go to beauty parlors at all, whereas there are others who go regularly. Similarly, there are many such examples telling us that people show different behavior in buying and using different products and services.

In the purchase of any particular service six distinct roles are played. These are:

- **Initiator:** The person who has a specific need and proposes to buy a particular service.
- **Influencer:** The person or the group of people who the decision maker refers to or who advise. These could be reference groups, both primary and secondary. It could be even secondary reference group like word of mouth or media, which can influence the decision maker.
- **Gatekeepers:** The person or organization or promotional material which act as a filter on the range of services which enter the decision choice set.
- **Decider:** The person who makes the buying decision, irrespective of whether he executes the purchase himself or not. He may instruct others to execute. It has been observed at times, more typically in house hold or family or individual related services, one member of the family may dominate in the purchase decision.
- **Buyer:** The person who makes the actual purchase or makes bookings for a service like travel, hotel room, hospital, diagnostic lab, etc.
- **User:** The person who actually uses or consumes the product. It can be other than the buyer. In a number of services, it has been observed that users are also the influencers.

## Factors influencing buyer behavior

There are a number of factors or variables which affect the buying behavior. For example; people go on holiday during the vacation time so vacations become a variable. A person may visit an exclusive restaurant during 'happy hours', which he does not visit normally. In this case the marketing efforts of the organization (sales person and the scheme) become the factor influencing to buy. Similarly, there are other factors which affect the buying decision. These factors can be classified into four major categories, namely:

1. Situational factors
2. Buyer's socio-cultural factors
3. Personal factors
4. Psychological factors.

These have been summarized below.

### 1. Situational Factors

The situational factors influencing the buying behavior are, the influence of time pressure in product and brand choice, the atmosphere of the retail outlet, occasion of purchase etc. For example, if you are traveling, then demand for lodging and boarding will obviously be there.

## 2. Socio Cultural Factors

Buyers or consumers do not take buying decision or the decision not to buy, in a vacuum. Rather, they are strongly influenced by Socio Cultural factors.

a) Cultural Factors: Children acquire from their environment a set of beliefs values, and customs which constitute culture. These beliefs, values and customs go deeper and deeper as a person grows. Therefore, it is sometimes said that culture is learnt as a part of social experience. The various sub-categories within a culture can be identified based on religion, age, gender, occupation, social class, geographical location etc. This classification is significantly relevant from the consumer behavior point of view.

b) Reference Groups: There are certain groups to which people look to guide their behavior. These reference groups may guide the choice of a product but may not be the brand. Peer groups and the peer pressure have generally been observed to play an important role in the purchase of credit cards, cell phones, etc. The knowledge of reference group behavior helps in not only offering substitutes but also in pricing and positioning them. It is important to note that there are 'negative' reference groups also and some persons don't want to associate themselves with these groups. The negative reference groups guide the behavior in terms of "what not to do".

c) Family: The family is another major influence on the consumer behavior. The family consumption behavior to a large extent depends on the family life cycle. The stages in family life cycle include bachelorhood, newly married, parenthood with growing or grown up children, post-parenthood and dissolution. Knowledge of these stages helps greatly in knowing the buying process. Often family members play a significant role in the purchase of a particular service, for example it's the teenage children who influence the parents to decide on a destination and middle aged buy more of insurance services than the younger ones.

## 3. Psychological Factors

a) Perceptions: It is the process by which buyers select, organize and interpret information into a meaningful impression in their mind. Perception is also selective in which only a small part is perceived out of the total what is perceptible. Buyer's perception of a particular product greatly influences the buying behavior. For example, if the buyer's perception of a product is not positive it requires much harder efforts from the marketing or sales person to convince the buyer on the qualities of the product and thus suggesting him to purchase it.

b) Attitude: An attitude is a learned predisposition to respond in a consistently favorable or unfavorable manner with respect to a market offer (i.e. a brand, a particular shop or retail outlet, an advertisement, etc.). Attitude is a dispositional term indicating that attitudes manifest themselves in behavior only under certain conditions. Knowing a buyer's attitude towards a product without knowing the personal goals is not likely to give a clear prediction of his behavior.

c) Motivation: Motivation is the driving force within individuals that compel them to action. This driving force is subconscious and the outcome of certain unfulfilled need. Needs are basically of two types. First, the 'innate needs' those needs an individual is born with and are mainly physiological. They include all the factors required to sustain physical life e.g., food, water, shelter, clothing, etc. Secondly, the 'acquired needs' those which a person acquires as he/she grows and these needs are mainly psychological, like love, fear, esteem, acceptance etc. For any given need, there could be a variety of goals.

#### 4. Personal Factors

a) **Personality:** Personality can be described as the psychological characteristics that determine how an individual will react to his or her environment. There are a number of dimensions (personality traits) against which an appreciation of an individual's personality can be developed. Each personality trait denotes two absolute points and a person's personality characteristics can be identified somewhere between those two absolute points, indicating the proximity to either of the two. Some of the traits are as follows:

Let us examine how buyer behavior is affected by the personality of an individual and for this we take the example of extroversion. Extrovert is a person who is more sociable, likes meeting people, making more friends, prefers to move about, careful about his appearances and doesn't like reading books or confining to the four walls of a room. On the other hand an Introvert is a person, who prefers to be left alone, would like to read books rather than making friends, shies away from social gatherings. There are a number of products which are preferred more by extroverts rather than introverts. Perhaps the products suggesting status are purchased more by the extroverts than the others.

b) **Life Style:** Lifestyle as distinct from social class or personality is nothing but a person's pattern of living and is generally expressed in his/her activities, interests and opinions. Some of the dimensions of life style are as follows:

Life styles suggest differences in the way people opt to spend on different products differently. Life style variables (psychographics variables) help a firm to identify the 'Inner consumer' or the feelings of the consumer about their products which needs to be stressed in advertising campaigns.

c) **Demographic Factors:** Buyer's demographic factors like age, gender, education, occupation, etc. also have influence on the purchase behavior. These factors are very much significant in the study of behavior of buyers. For example, fast food outlets are more patronized by the teenagers than the elderly persons- example of age as a factor; air travel is more used by the executives than the factory workers-examples of occupation as a factor.

#### Segmentation of Services

Market segmentation is the sub- dividing of market into homogeneous sub section of customers, where any sub section may conceivable be selected as a market target to be reached with a distinct market mix. The marketer has to identify his targeted customers (segments). For example, a motorcycle manufacturing company has to identify their market segments, like female officers, teenage college students, and middle aged customers. After identifying the segments the marketer (manufacturer) has to understand their tastes and expectations. In the case of female customers, they need not use much power full vehicles, like that the teenagers demand most powerful and stylish vehicles and the middle aged customers need vehicles having more mileage.

#### Benefits of market segmentation

No one can satisfy all people all time, can satisfy some people all the time or all people for some time. This concept is reflected in market segmentation

1. Facilitates proper choice of target market
2. Helps distinguish one customer group from another within a given market
3. Facilitates effective tapping of the market, adapting the offer to the target
4. The "divide and rule" concept as a strategy of dividing markets for conquering them

5. Helps crystallize the needs of the target buyers and bring out more predictable responses from them, helps develop marketing programs on a more predictable base, helps develop marketing offers that are most suited to each group.
6. Helps specialization required in products/services, distribution, promotion and pricing for matching the customer group and developing marketing offers and appeals that match the needs of such groups.
7. Makes marketing effort more efficient and economic, helps to identify less satisfied segments and concentrate on them to improve level of satisfaction.
8. Helps to concentrate efforts on the most production and profitable segments instead of frittering them away over irrelevant or unproductive or unprofitable segments.
9. Brings benefits to the customer as well, in various ways.
10. When segmentation attains high sophistication, customers and companies can choose each other and stay together.

### Steps in the Segmentation Process

Five major steps are involved in dividing markets into meaningful segments, although these steps and their description may vary from one situation to another.

*a. Define and analyze the market* - determine market parameters (based on characteristics that may include or exclude customers from a group) within organization's mission and business definition, as well as its strategic intent.

*b Identify and describe potential segments* - decide on the most useful dimensions or variables for selecting members of potential market segments; then aggregate customers into homogeneous groups, develop a profile of the characteristics of each group, etc.

*c. Select the segment(s) to be served* - select segments by evaluating against predetermined criteria, then rank according to the organization's ability to serve the market profitably while providing customer satisfaction.

*d. Determine the product positioning strategy* - determine the best "fit" between a product and a market according to features most desired by customers; consider competitors' positioning strategies, organizational goals, and the market situation.

*e. Design and implement the marketing program* - develop a tactical plan (marketing mix) and determine objectives for the marketing program; all elements of the marketing mix must be consistent with the selected positioning strategy.

### Bases of segmentation

#### 1. Geographic

- Region- East, West , South, North, Asian, European, India etc
- City or metro size etc
- Density – Urban, rural etc
- Climate – Hot. Cold, Rainy etc

## 2. Demographic

- Age- childhood, young etc
- Gender – male, female
- Marital status – married , unmarried
- Family size
- Income
- Purchasing capacity and
- Price preference
- Education
- Occupation

## 3. Psychographic

- Life style – culture oriented, sports oriented, outdoor oriented etc
- Personality

## 4. Behaviouristic

- Benefit segmentation – economic, durable, value for money etc
- Purchase occasion – time, objective, location, person,
- User status
- Usage rate
- Brand loyalty

## Marketing Mix

Marketing is performed within a certain environment which itself is always changing. The marketing activities have, therefore, to change accordance with environmental changes. In order to appreciate this process it is easier to divide the marketing activities into four basic elements, which are together referred to as the marketing mix. These four basic elements are:

1. Product
2. Price
3. Place
4. Promotion



As all these four start with the letter 'P' they are, at times, referred to as the four Ps of the marketing mix or the 4Ps in marketing. The word product stands for the goods or services offered by the organization. Price refers to the money value that the customer has to pay. The product has to be adequately priced. This involves considerations of the profit margin, the cost, the possibility of sales at different prices and the concept of the right price.

Promotion is the aspect of selling and advertising, or communicating the benefits of the product or service, to the target customers or the market segment involved in order to persuade them to purchase such products or services. It includes selling through advertising as well as the sales force. Besides, a certain amount of promotion is done through special seasonal discounts, competitions, special price reductions, etc. collectively called sales promotion. Finally, physical distribution refers to the aspect of the channels of distribution through which the product has to move before it reaches the consumer. It also includes the logistics aspects of distribution such as warehousing, transportation, etc.

### 1. Product

Product, in the marketing context is anything which is offered to the market for exchange or consumption. In goods marketing it is always said that, there is a tangible component to which some intangibles like style, after sales service, credit, etc., are integrated. In the case of services, on the contrary, the tangible component is nil or minimal. Conventionally, it is said a product as an object, which is developed, produced, delivered and consumed. However, in services there is no or a little tangible element. Therefore, the services are considered to be as benefits which are offered to the target market.

#### Five product levels

Core Benefit	The fundamental benefit or service the customer is buying (hotel : rest/ sleep)
Basic Product	Basic functional attributes (room, bed, bath)
Expected Product	Set of attributes / conditions the buyer normally expects (clean room. Large towel, quietness )
Augmented Product	That meets the customers' desire beyond expectations
Potential product	The possible evolution to distinguish the offer.

### Developing new services

In order to develop a service product, as a manager you will have to follow the following stages:

- i) - Customer Benefit Concept: The service product which is offered in the market place must have its origin in the benefits which the customers are seeking
- ii) Service Concept: Using the customer benefits as the starting point, the service concept defines the specific benefits which the service offers
- iii) Service Offer: Having defined the business in which you are operating, the next step is to give a specific shape and form to the basic service concept.

iv) Service Forms: In what form should the services be made available to the customers is another area of decision-making

v) The service delivery system – It is the mode of service dissemination.

Choosing a brand name for a consumer product or service is one of the most important decisions. A well chosen brand name can provide a number of specific advantages to the organization. These include suggesting product benefits, evoking feeling of trust, confidence, security and simplifying shopping. The American Marketing Association defines a brand as follows: 'A brand is a name, term, sign, symbol, or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

## 2. Price

In the case of products, the term 'price' is used for all kinds of goods- fruits, clothes, computers, building etc. but in the case of services, different terms are used for different services. The following table shows the term used for some selected services.

Terminology	Service
Admission	Theatre entry
Commission	Brokerage
Fee	Transport
Fee	Legal service
Internet	usage money
Premium	Insurance
Rent	Property usage
Salary	Employee service
Tariff	Utilities

### Pricing and Service Characteristics

In determining the prices of services, the one characteristic which has great impact is their perishability and the fact that fluctuations in demand cannot be met through inventory. Hotels and airlines offering low rates in off-season are examples of how pricing strategy can be used to offset the perishable characteristics of services.

Another characteristic of services that creates a problem in price determination is the high content of the intangible component. The higher the intangibility, the more difficult it is to calculate cost and greater the tendency towards no uniform services, such as fees of doctors, management consultants, lawyers. In such cases, the price may sometimes be settled through negotiation between the buyer and seller.

The third characteristic to be kept in mind while determining prices is that in many services, the prices are subject to regulations, either by the government or by trade associations. Bank charges, electricity and water rates, fare for rail and air transport in every country are controlled by the government. In all such cases, the producer has no freedom to determine his own price. The two methods which a service organisation may use to determine prices are cost-based pricing and market-oriented pricing. In the former, the price may be regulated by the government or industry association on the basis of the cost incurred by the most efficient unit. Such a

pricing strategy is effective in restricting entry and aiming at minimum profit targets. The market-oriented pricing may either be a result of the competition or customer oriented.

In case of competition-oriented pricing, the price may be fixed at the level which the competitor is charging, or fixed lower to increase market share. Customer oriented pricing varies according to the customer's ability to pay.

### **Role of Non-monetary Costs**

Non-monetary costs refer to the sacrifices perceived by the consumers, other than monetary costs, when buying and using a service. Many a times the non monetary costs may become even more important than monetary costs. The nonmonetary costs can be broadly divided into the following categories.

- **Time Costs:** The time required by a consumer would include actual time of interaction with the service provider as well as the waiting time. Therefore, the consumer is not only spending his money but also sacrificing his time.
- **Search Costs:** These involve the efforts put in by the consumer in searching information, finding out alternatives and evaluating them. Typically search costs are far greater in case of services as compared to goods
- **Psychic Costs:** These include fear of not understanding or fear of rejection or fear of uncertainty.

### **Pricing Strategies**

- a) Differential or Flexible Pricing is used to reduce the 'perishability' characteristic of services and iron out the fluctuations in demand.
- b) Discount Pricing refers to the practice of offering a commission or discount to intermediaries such as advertising agencies, stock brokers, property dealers for rendering a service.
- c) Diversionary Pricing refers to a low price which is quoted for a basic service to attract customers.
- d) Guaranteed Pricing refers to pricing strategy in which payment is to be made only after the results are achieved. Employment agencies charge their fee only when a person actually gets a job, a property dealer charges his commission only after the deal is actually transacted.
- e) High Price Maintenance Pricing strategy is used when the high price is associated with the quality of the service. Many doctors, lawyers and other professionals follow this pricing strategy.
- f) Loss Leader Pricing is one in which an initial low price is charged in the hope of getting more business at subsequently better prices.
- g) Offset Pricing is quite similar to diversionary pricing in which a basic low price is quoted but the extra services are rather highly priced. A gynecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but many charge extra for performing the actual delivery and post-delivery visits.
- h) Price Bundling: Some services are consumed more effectively in combination with other services. When customer perceives value in package of services that are interrelated, price bundling is an appropriate strategy. It basically means pricing and selling services as a group rather than individually.

### 3. Place or Distribution

The most important decision element in the distribution strategy relates to the issue of location of the service so as to attract the maximum number of consumers. The inseparability characteristic of service such as those of doctors, teachers, consultants, mechanics etc. poses a distribution constraint since they are able to serve only a limited, localized market. The other characteristic of services which affects the distribution strategy is the fixed location of services such as universities, restaurants, and hospitals which necessitates the customer to go to the service location rather than vice-versa.

#### Methods of distribution in Services

Distribution in services can be broadly classified into two categories- direct sales and sales via intermediaries.

##### A) Direct Sales

Direct sales has specific marketing advantages as they help in maintaining better control over how the service is provided or performed and also in obtaining direct feedback from customers. There are obvious problems also in direct sales, like; problems of expanding the business and coping with high workloads where the services of a particular individual may be in demand or direct sale means limited geographic market coverage. The following are the means of direct sales method.

###### a) Direct Sales through Electronic Channel

To overcome location problems, companies are exploring possibilities of direct sales through electronic channels. The typical benefits the companies see in electronic distribution of services are:

- Consistent delivery for standardized services
- Low cost
- Customer convenience
- Wide distribution

###### b) Franchising

Franchising is the granting of rights to another person or institution to exploit a trade name, trade mark or product in return for a lump-sum payment or a royalty. Franchise is characterized by the following features:

- Ownership by one person of a name, an idea, a secret process or specialized piece of equipment and the goodwill associated with it.
- The grant of a license by that person to another permitting the exploitation of such name, idea process or equipment and the goodwill associated his rights.
- The inclusion in the license agreement of regulations relating to operation of the business in the conduct of which the licensee exploits his rights.
- The payment by the licensee of a royalty or some other consideration for the rights that are obtained
- Quasi Retailing The quasi-retail outlets, sell services rather than goods, like Hairdressers, Amusement arcades Travel Agents, Employment agencies, Car hire agencies, Hotels, Restaurants, Driving Schools.

## B) Sales via Intermediaries

Majority of the goods and services are made available to the customers through intermediaries. The following are the dominating intermediaries in the market.

### Key Issues Involving Intermediaries

The following are the major issues which should be addressed before hand in deciding the distribution strategy involving intermediaries

- Conflict over objectives and performance
- Conflict over costs and rewards
- Control of service quality
- Empowerment versus control
- Channel ambiguity

A service organization can develop an effective channel system if it helps the intermediary to develop customer-based service processes by providing the required support. Also through training it may develop the intermediary to deliver service quality and gradually move to a cooperative management system and controls.

**Agent:** An agent is an independent intermediary, who may act in the name of, or for a principal. His contract will define these provisions along with territorial rights, exclusivity and sales commissions.

**Broker:** A broker is an independent intermediary between buyer and seller who bring parties together to facilitate the conclusion of sales contract. A broker may have continuing relationship for his client under a contract period; for which he may charge fee for assistance.

Alternately, a broker may be for a special job to be undertaken.

### Functions of Agents and Brokers

The major function of these agents and brokers is, like any other intermediary, to bring the producer of service and the user or consumer together. For certain services, agents can be identified and deployed with selling as the chief function to be performed by them.

These agents can be compared with the agents for goods and they are classified as brokers or sales agents. The example of this kind of channel is transportation (travel agents) and office or factory workers (employment agencies). In case of certain services, actual product is not transferable and therefore tangible representations are created and transferred. This type of channel is used for marketing insurance services, where a contact document exists as a physical and tangible representation of the services.

Another characteristic of services is that the services are generally not delivered to the buyer and the creation of time and place utilities is a vital function in the services marketing.

Irrespective of whether one uses agents or middlemen or direct sales channel the factor of location keeping in view the potential markets will be the most significant factor in channel selection decision. Duane David et.al, are of the view that location considerations along with personal sources of information are two of the critical factors in final purchase decision of many services. The problem of standardization and uniformity restrains the service organization to use middlemen to any great extent and limit the geographical area which the service organizations propose to reach and cover. This lays emphasis on the significance of good selection to attain

maximum coverage at the market place. Banking organizations have started reliving this fact and introduced extension counters, mobile banking apart from opening branches in rural areas.

#### **4. Promotion**

Promotion mix, as it is mentioned the aspect of selling and advertising, or communicating the benefits of the product or service, to the target customers or the market segment involved in order to persuade them to purchase such products or services.

##### Promotion Objectives

1. Develop personal relations with client (personal relations might result in satisfaction, more than their service offer).
2. Make a strong impression of competency, honesty and sincerity (professional orientation to service transaction so as to win buyers confidence in sellers abilities to deliver the services).
3. Should be able to use indirect selling techniques (creating derived demand or act as a buying consultant).
4. Manage to maintain a fine image by positive word of mouth.
5. Packaging and customization.

The Guidelines which can be kept in mind while promoting services are as follows.

- a) Use simple, clear messages;
- b) Emphasize the benefits of service;
- c) Promise only that which can be delivered and do not exaggerate claims;
- d) Build on word-of-mouth communication by using testimony of actual consumers in advertisements; and
- e) Provide tangible clues to services by using well-known personalities or objects to help customers identify the service.

##### Target Audience

While defining the objectives of the communication campaign, the target audience is to be cleared. In service sectors there is a direct contact between the person who provides the service and the customers.

Therefore, some amount of promotion should be targeted at the employees so as to motivate them to serve the customer better. In such communications the objective can also be to educate the employees about how to handle operational problems so as to increase their performance level.

##### **Promotion Mix**

- **Advertising**

Advertising is any kind of paid, non-personal method of promoting by an identified organization or individual. Certain services such as entertainment (cinema, theatre), passenger and freight transport (roadways, airlines, trains), hotel, tourism and travel, insurance have been advertising heavily in newspaper, magazines, radio, TV to promote greater usage and attract more customers. However, certain service professionals such as doctors, accountants, and lawyers, have rarely used advertising as a means of increasing their clientele.

Objectives of advertising have been identified as:

- a) Creating an understanding of the company in the customers' minds by describing the company's services, activities and its areas of expertise.
- b) Creating a positive image for the company.
- c) Building a strong sense of identification with the customer by turning his needs, values and attitudes.
- d) Creating a positive background for the sales people to sell the services by providing all relevant information about the company.

- **Word of Mouth (WOM)**

Word of mouth plays an important role in promoting services. Services are adopted, if not more, as much because of word of mouth communications as because of active promotion by marketers. However, people seldom pass on information about a product or service without some reasons. Managers who want to take advantage of word of mouth communication should make specific efforts in this direction. Given below are some suggestions for stimulating a positive word of mouth (apart from providing excellent service quality)

- ✓ Offering a gift, discount or other reward to customers who bring in new customers.
- ✓ Asking customers who express satisfaction, to tell their friends.
- ✓ Running a newsletter and asking customers to contribute. Contribution may be in terms of letters, stories or ideas. This can also be done through website.
- ✓ Reward your regular customers with some freebies.
- ✓ Target opinion formers.

### **Additional Ps of Service Marketing**

For service sector, it is observed that the traditional marketing mix is inadequate because of three main reasons. The first reason is that the original marketing mix was developed for manufacturing industries, which implies that the services offered by service companies ought to be changed in a more product like manner so that the existing marketing tools can be applied. The second reason is that the marketing practitioners in the service sector found that the marketing mix does not address to their needs. They observed that the services have certain basic characteristics, which in turn have marketing implications.

For example there is a problem as regard to maintaining the quality due to lack of standardization or services can't be inventoried, patented or transferred. The third reason is that since services are basically different in comparison to physical products the marketing models and concepts have, therefore, to be developed in direction of the service sector.

In order to solve these problems, three more additional Ps were developed. They are,

1. People
2. Physical evidence
3. Process

#### **1. People**

People constitute an important dimension in the management of services in their role both as performers of service and as customers.

### ***a. Performers of service / Service Personnel***

Service Personnel are important in all organizations but more so in an organization involved in providing services. The behaviour and attitude of the personnel providing the service is an important influence on the customers' overall perception of the service and he can rarely distinguish between the actual service rendered and the human element involved in it .

Service personnel are two types- visible service personnel and non-visible service personnel. In a restaurant the waiters are visible while the cook in the kitchen is not. As a marketing manager you have to devote more time training the visible personnel, since they have greater responsibility in maintaining relations with the customer. The rice dish which is not cooked properly is the cook's fault but it is the waiter who will have to bear the brunt of the customers' anger. The manner in which the waiter behaves with the customer will be an important determinant in the restaurant losing that customer forever or retaining him as a regular client. As a marketing manager your primary concern is the visible service personnel.

### ***b. Customers***

Customers are important because they are a source of influencing other customers. In the case of doctors, lawyers, consultants one satisfied customer will lead to a chain reaction, bringing in his wake a number of other customers. Thus as a marketing manager, your first task should be to ensure complete satisfaction of the existing customers. The kind of customers that you attract exerts an important influence on prospective customers. The prospective customer may feel attracted towards the organization (it may be a restaurant, club, school, college) because it has his 'type' of customer.

## **2. Physical Evidence**

Physical evidence is the atmosphere where the service is being delivered from. For example, Cleanliness in doctor's clinic, exterior appearance and interior decor of restaurant, the comfort of the seating arrangement in a cinema hall, adequate facility for personal needs at the airport all contribute towards the image of the service (organization) as perceived by the customer. The common element in these is that they are all physical, tangible and controllable aspects of a service organization. They constitute the physical evidence of the service. There may be two kinds of physical evidence:

1. Peripheral evidence
2. Essential evidence

Peripheral evidence is actually possessed as a part of the purchase of service but by itself is of no value. Airline ticket, cheque book, receipt for a confirmed reservation in a hotel are examples of peripheral evidence. A cheque book is of value only if you have money in the bank-without that it is of no significance. Peripheral evidence adds on to the - value of essential evidence. In a hotel you may find matchbox, writing pad, pen, complimentary flowers and drinks, which you may take away. These are Representations of peripheral evidence. Peripheral evidence is possessed and taken away by the customer, but essential evidence cannot be possessed by the customer; the building, its size and design, interior layout and decor, logo and mnemonic device of the organizations are constituents of the essential evidence. The essential evidence is a very critical input in determining the atmosphere and environment of the service organization.

It is the duty of a marketing manager to manage the physical evidence in order to create the ideal environment for the service. It can be done in two ways: one by making the service more tangible, and two, by making it easier for the customer to grasp the concept of the service.

One obvious way of making the service more tangible is by developing a tangible representation of the. Service as is done in case of credit cards. Credit cards have a physical entity and are identifiable by their brand name and distinct looks of the card. Other ways by which a service can be made more tangible is by standardizing the physical attributes such as location, interior decor, color scheme etc. Most airlines use a dress for all their staff to help create a sense of uniformity.

The second way is to make it easier for the consumer to understand the concept of the service which you are offering with easily perceived objects and ideas. Promoters of package tours may provide detailed information about the hotel, food and transport facility they would be using to help the consumers understand the concrete dimensions of the tour and thus reduce their anxiety arising out of uncertainty. Information which helps reduce uncertainty and provides specific: information about the various dimensions of the service should be provided to prospective consumers.

### 3. Process

In a service organization, the system by which you receive delivery of the service constitutes the process. For example, in fast food outlets the process comprises buying the coupons at one counter and picking up the food against that at another counter. Services can be described on the basis of the types of processes used in the delivery of the services.

There are three kinds of delivery processes that are applicable in case of service products. They are line operations, job shop operations and intermittent operations. Self service restaurants are examples of line operations. The consumer moves through logically arranged operations which are arranged in a sequence. When the consumers require a combination of services using different sequences, the job shop type of operation is more useful. Hospitals, restaurants and educational institutions usually have this type of delivery process. In a hospital, some patients need only consultation in the Out Patient Department, some others may need consultation as well as medication or X-ray, some patients require hospitalization or surgery, medication or investigations. All these categories of consumers require a different combination of dishes. A college may offer courses for full-time students as well as for working people through correspondence. Firms offering consultancy for projects use this kind of delivery system. Advertising agencies also use the intermittent delivery system since each advertising campaign requires a unique set of input factors.

