SERVICES MARKETING
A Practical Approach

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Lesson 1 Introduction

What is a service?

Difference between goods and services

What are the different types of services?

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What is a Service?

Service means a helpful activity performed for others.
Example: a delivery

It is a type of rental (Lovelock and Gummesson, 2004).

- Rented goods (e.g. Photocopying)
- Space and place (e.g. Hotel room)
- Labour and expertise (e.g. Legal services)
- Physical environment (e.g. Museum)
- Systems and networks (e.g. Telecommunication)

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Marketing Implication of Renting versus Owning

- Goods can be rented instead of being sold
- Portions of a larger physical entity can be rented out
- Customers are more closely engaged with service delivery
- Time plays a central role in most services
- Customer choice criteria may differ between rentals and purchases
- Rentals offer opportunities for resource sharing

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Classification of Products

According to ISO 9000: 2005 products are defined as “result of a set of interrelated or interacting activities which transform inputs into outputs”

According to this standard, products can be classified into:

- Hardware - discretely countable (e.g. engine mechanical part)
- Software - information (e.g. computer program, dictionary)
- Processed materials - continuously countable (e.g. lubricant)
- Services - intangible (e.g. transportation)

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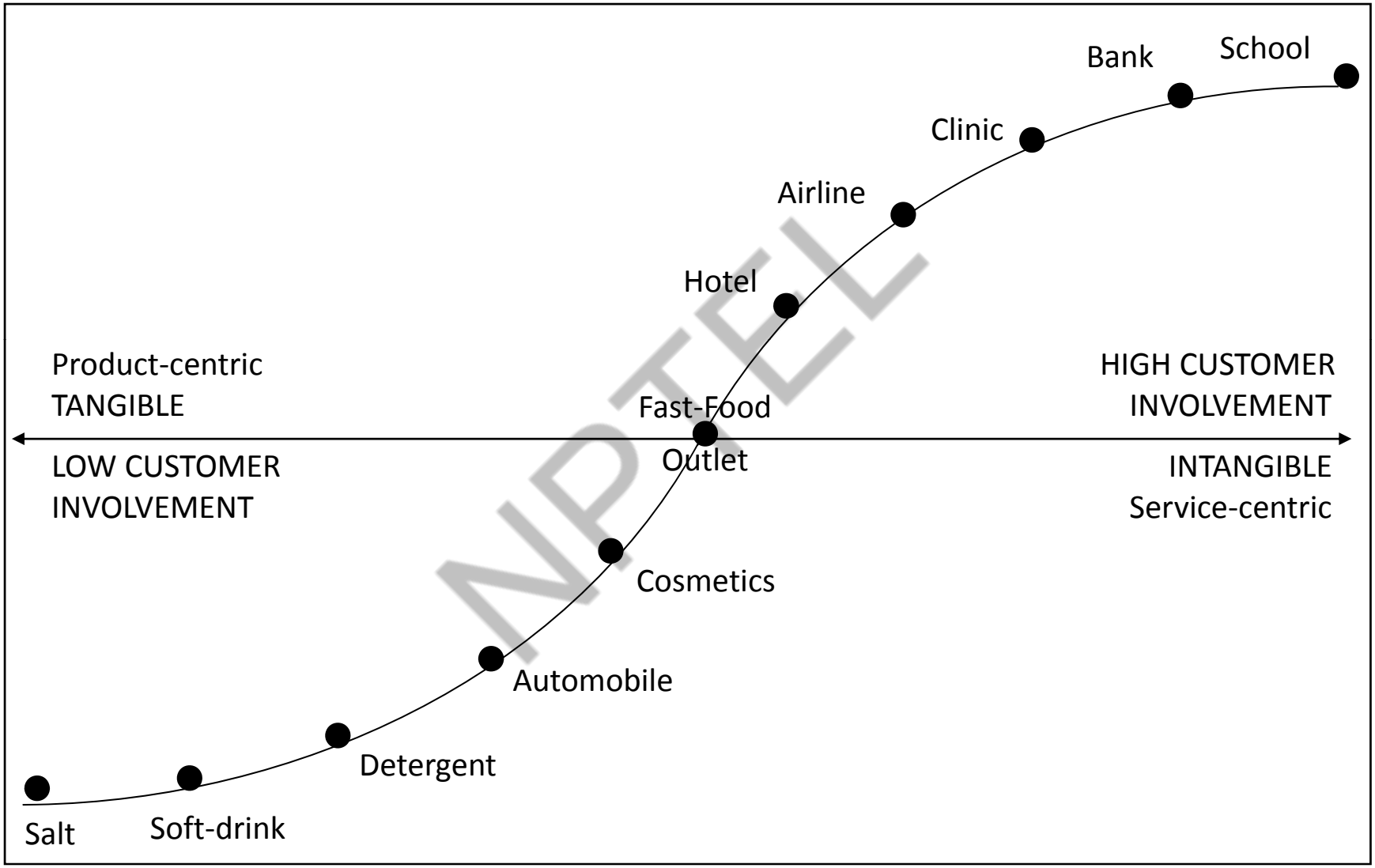
Definition of Services

According to ISO 5127:2001 services are defined as “results generated by activities at the interface between a supplier and a customer and by supplier internal activities to meet customer needs”

Example: haircut

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Difference between Goods and Services (Shostack, 1977)



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Goods-Services Continuum

Marketing Implications of difference between goods and services

(Lovelock, Wirtz and Chatterjee, 2010)

Difference	Implications	Marketing related tasks
Most service products cannot be inventoried	•Customers may be turned away or have to wait	•Smooth demand through promotions, dynamic pricing, and reservations •Work with operations to adjust capacity
Intangible elements usually dominate value creation	•Customers can't taste, smell, or touch these elements and may not be able to see or hear them •Harder to evaluate service and distinguish from competitors	•Make services tangible through emphasis on physical clues •Employ concrete metaphors and vivid images in advertising and branding
Services are often difficult to visualize & understand	•Customers perceive greater risk and uncertainty	•Educate customers to make good choices, explain what to look for, document performance, offer guarantees

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Marketing Implications of difference between goods and services

(Lovelock, Wirtz and Chatterjee, 2010)

Difference	Implications	Marketing related tasks
Customers may be involved in co-production	•Customers interact with provider's equipment, facilities, and systems •Poor task execution by customers may hurt productivity, spoil service experience, curtail benefits	•Develop user-friendly equipment, facilities, and systems •Train customers to perform effectively; provide customer support
People may be part of the service experience	•Appearance, attitude, and behavior of service personnel and other customers can shape the experience and affect satisfaction	•Recruit, train, and reward employees to reinforce the planned service concept •Target the right customers at the right times, shape their behavior
Operational inputs and outputs tend to vary more widely	•Harder to maintain consistency, reliability, and service quality or to lower costs through higher productivity •Difficult to shield customers from results of service failures	•Set quality standards based on customer expectations; redesign product elements for simplicity and failure-proofing •Institute good service recovery procedures •Automate customer- provider interactions; perform work while customers are absent

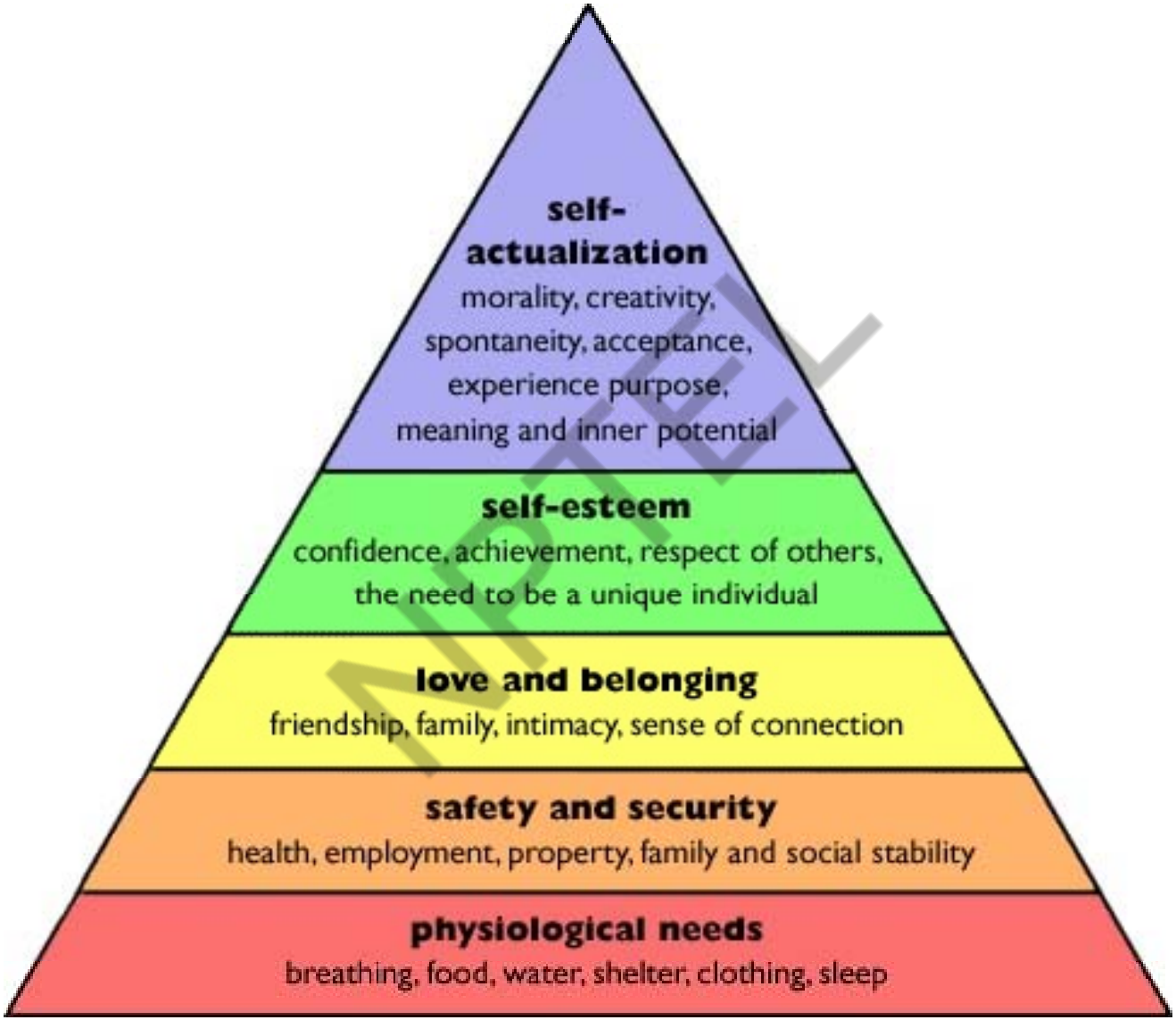
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Marketing Implications of difference between goods and services
(Lovelock, Wirtz and Chatterjee, 2010)

Difference	Implications	Marketing related tasks
The time factor often assumes great importance	•Customers see time as a scarce resource to be spent wisely; dislike wasting time waiting, want service at times that are convenient	•Find ways to compete on speed of delivery, minimize burden of waiting, offer extended service hours
Distribution may take place through nonphysical channels	•Information-based services can be delivered through electronic channels such as the Internet or voice telecommunications, but core products involving physical activities or products cannot be delivered through electronic channels	•Seek to create user-friendly, secure web sites and free access by telephone •Ensure that all information-based service elements can be downloaded from site

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What are the different types of services?



Maslow's (1943) Hierarchy of Needs

What are the different types of services?

Need	Service
Physiological needs	real estate service, restaurant service, hotel service
Safety and security needs	Security service, banking service
Love and belonging needs	Telecommunication service, dating and marriage service, clubs and associations
Self-esteem needs	Luxury service
Self-actualization	Education service, yoga service

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What are the different types of services?

Classification of services based on Max-Neef's (1991) fundamental human needs

Need	Being (qualities)	Having (things)	Doing (actions)	Interacting (settings)	Types of Services
subsistence	physical and mental health	food, shelter, work	feed, clothe, rest, work	living environment, social setting	Feeding, Health care, Retail and Supply services
protection	care, adaptability, autonomy	social security, health systems, work	co-operate, plan, take care of, help	social environment, dwelling	Housing, Clothing, Security, Safety, Maintenance and Insurance services
affection	respect, sense of humour, generosity, sensuality	friendships, family, relationships with nature	share, take care of, make love, express emotions	privacy, intimate spaces of togetherness	Friendship, Dating, Marriage and Gifting services
understanding	critical capacity, curiosity, intuition	literature, teachers, policies, educational	analyse, study, meditate, investigate	schools, families, universities, communities	Education, Investigation and Meditation services

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What are the different types of services?

Classification of services based on Max-Neef's (1991) fundamental human needs

Need	**Being (qualities)**	**Having (things)**	**Doing (actions)**	**Interacting (settings)**	**Types of Services**
participation	receptiveness, dedication, sense of humour	responsibilities, duties, work, rights	cooperate, dissent, express opinions	associations, parties, churches, neighbourhoods	Trade, Conference, Communication and Travel services
leisure	imagination, tranquillity, spontaneity	games, parties, peace of mind	day-dream, remember, relax, have fun	landscapes, intimate spaces, places to be alone	Entertainment services
creation	imagination, boldness, inventiveness, curiosity	abilities, skills, work, techniques	invent, build, design, work, compose, interpret	spaces for expression, workshops, audiences	Self-service
identity	sense of belonging, self-esteem, consistency	language, religions, work, customs, values, norms	get to know oneself, grow, commit oneself	places one belongs to, everyday settings	Club, Association, Prayer services
freedom	autonomy, passion, self-esteem, open-mindedness	equal rights	dissent, choose, run risks, develop awareness	anywhere	Justice and Enforcement services

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What are the different types of services?

- Professional services
- For profit services
- Not-for-profit services
- High-tech and high-touch services
- Customer service or after-sales service

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Lesson 2 Why study Services Marketing Management?

What is Marketing?

What is Marketing Management?

Why study Services Marketing Management?

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What is Marketing?

According to the American Marketing Association (2013), Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

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Types of Customer Needs

- Stated (travel)
- Real (inexpensive)
- Unstated (on-time service)
- Delight (on-board entertainment)
- Secret (kinesthetic experience)

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Customer Perceived Value

Total customer benefit	Total customer cost
Product benefit	Monetary cost
Services benefit	Time cost
Personal benefit	Energy cost
Image benefit	Psychological cost

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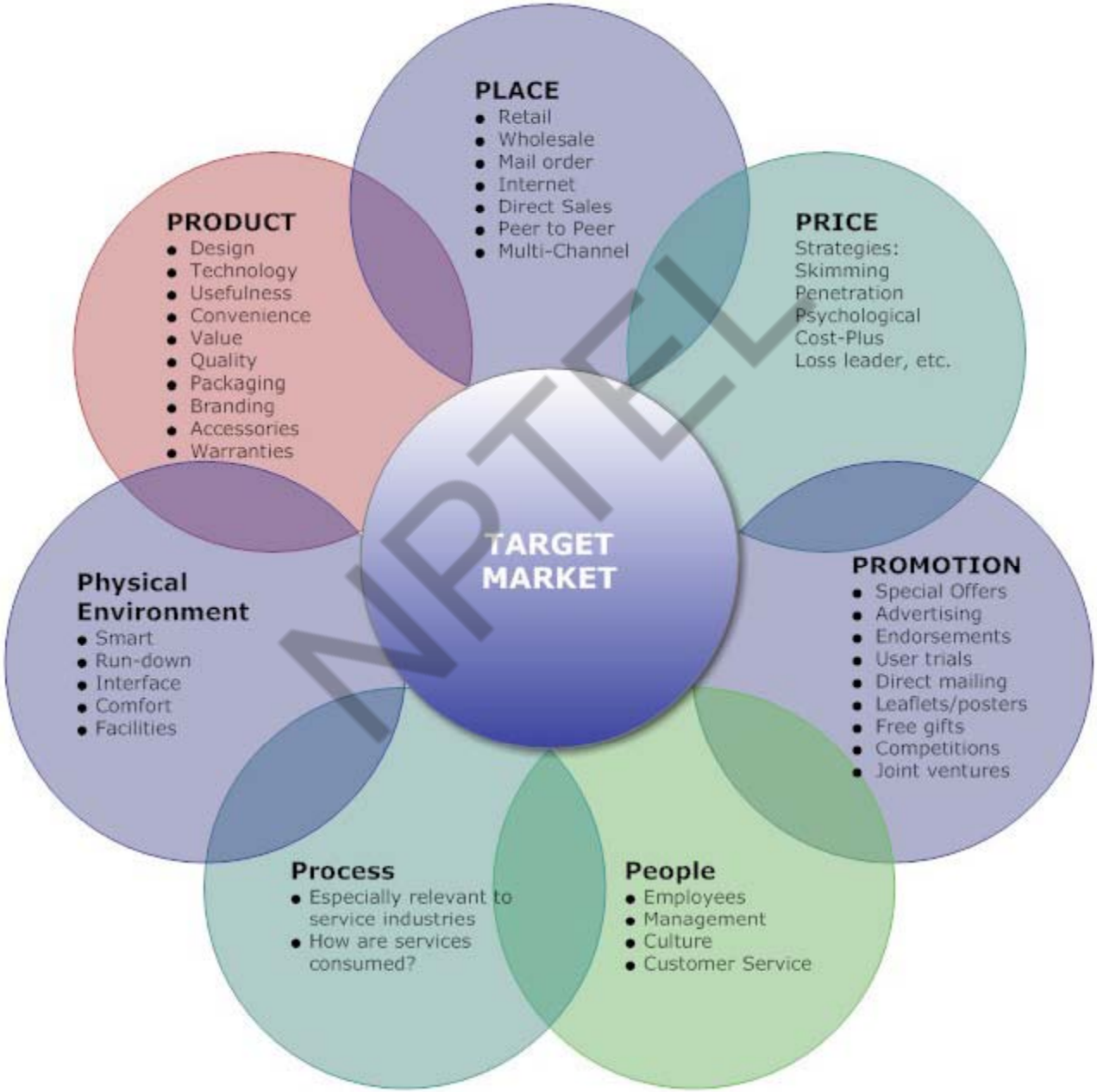
What is Marketing Management?

Professors Kotler, Keller, Koshy and Jha (2009) defined marketing management as "... the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value. "

Management means planning, monitoring and controlling all aspect of the activities of an organisation so that the activities are carried out as per plan in order to attain organisational objectives.

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The Marketing Mix (7Ps)



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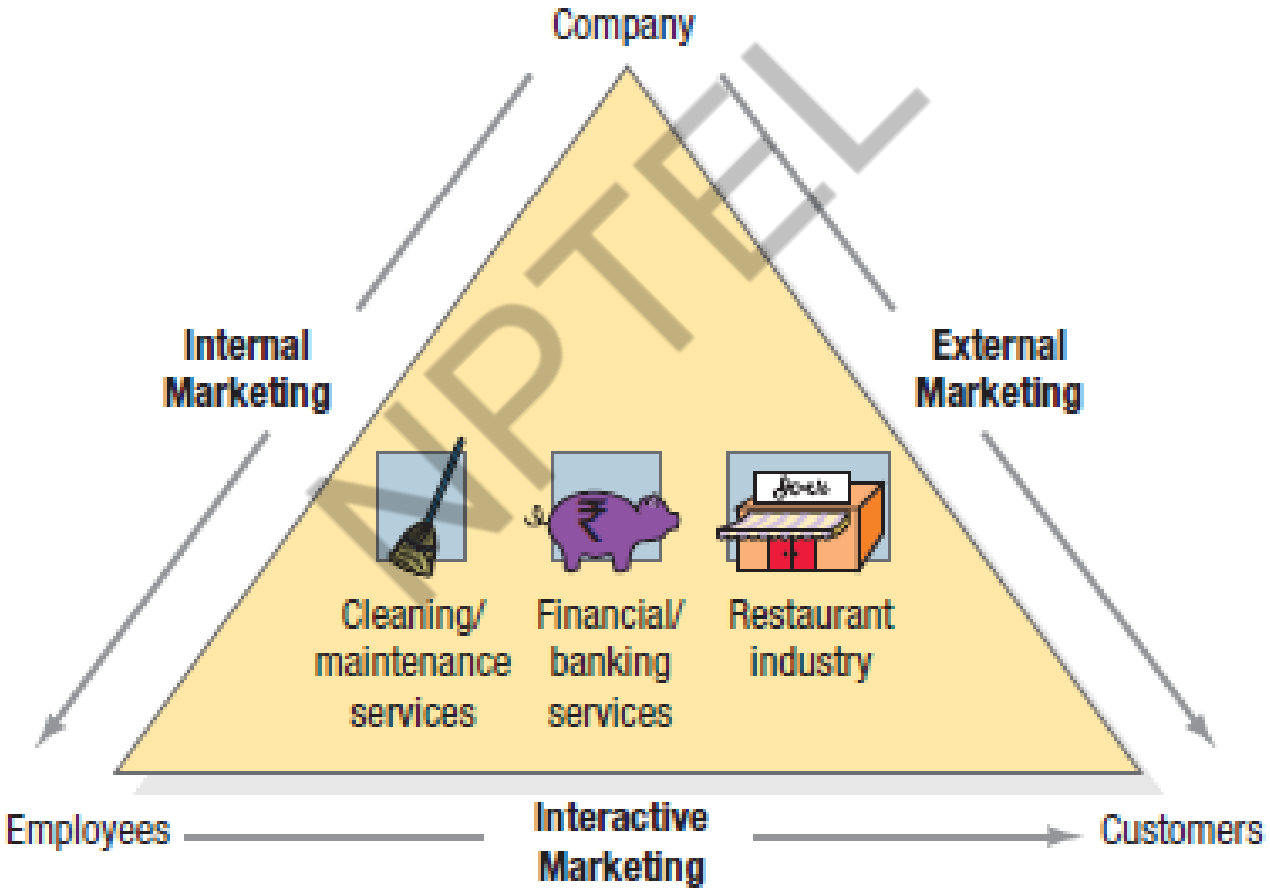
Marketing Management Tasks

- Develop market strategies and plans
- Assess market opportunities and customer value
- Choose value
- Design and create value
- Deliver value
- Communicate value
- Sustain growth and value

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Types of Marketing in Service Industries

(Kotler, Keller, Koshy and Jha, 2013)



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Why study Services Marketing Management?
(Bateson and Hoffman, 2011)

1. Consumers evaluate services differently than goods and service marketers must effectively manage the experiential aspects of the service product
2. Services can be effectively used as a differential advantage for tangible-dominant products
3. The growth of the global service economy in terms of contribution of the GDP has increased dramatically
4. The growth of the global service workforce has also increased accordingly
5. The emergence of technologically based e-services (or self-service technologies) have transformed many service industries
6. Knowledge is needed in the area of developing sustainable services marketing business practices.
7. Poor service delivery

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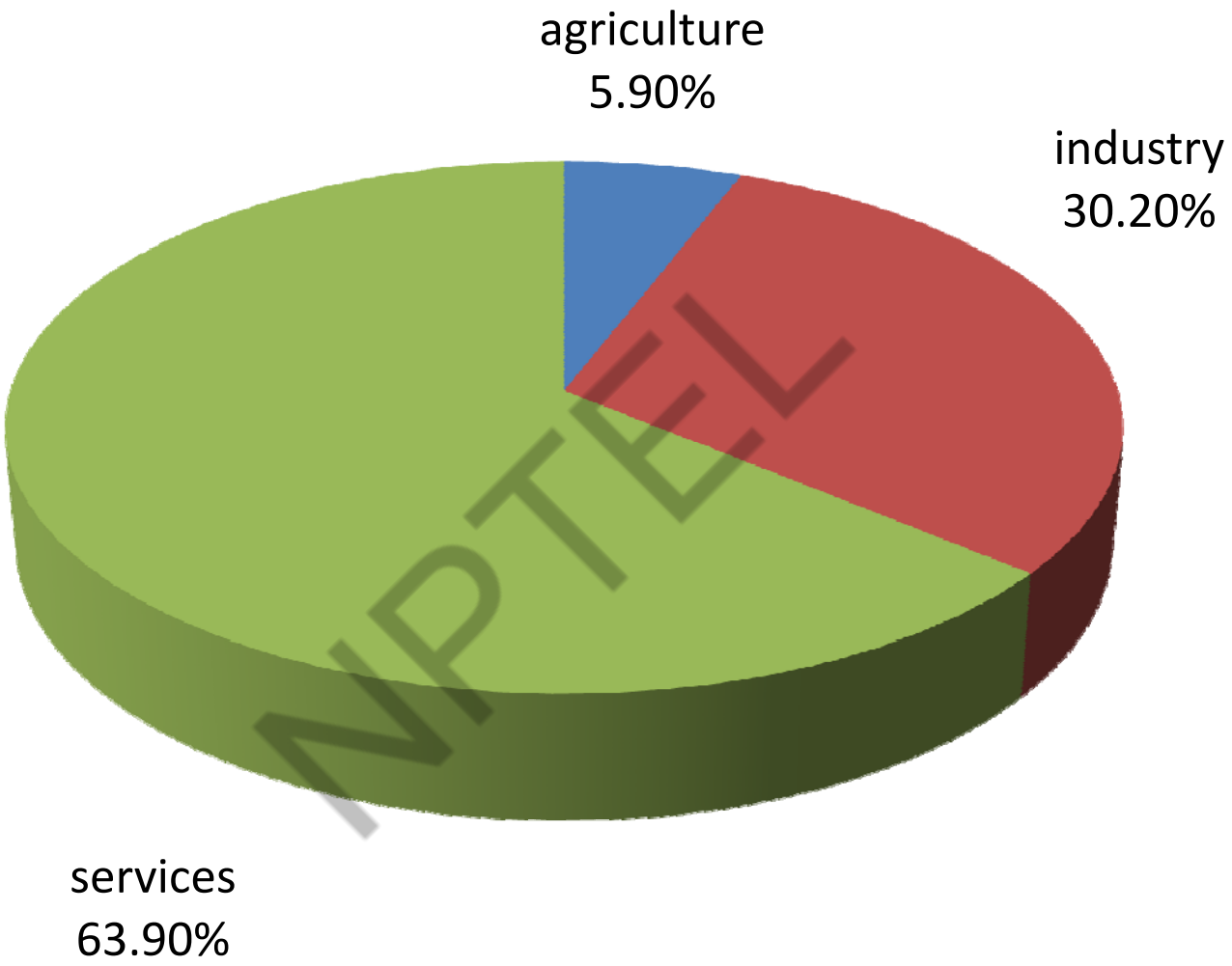
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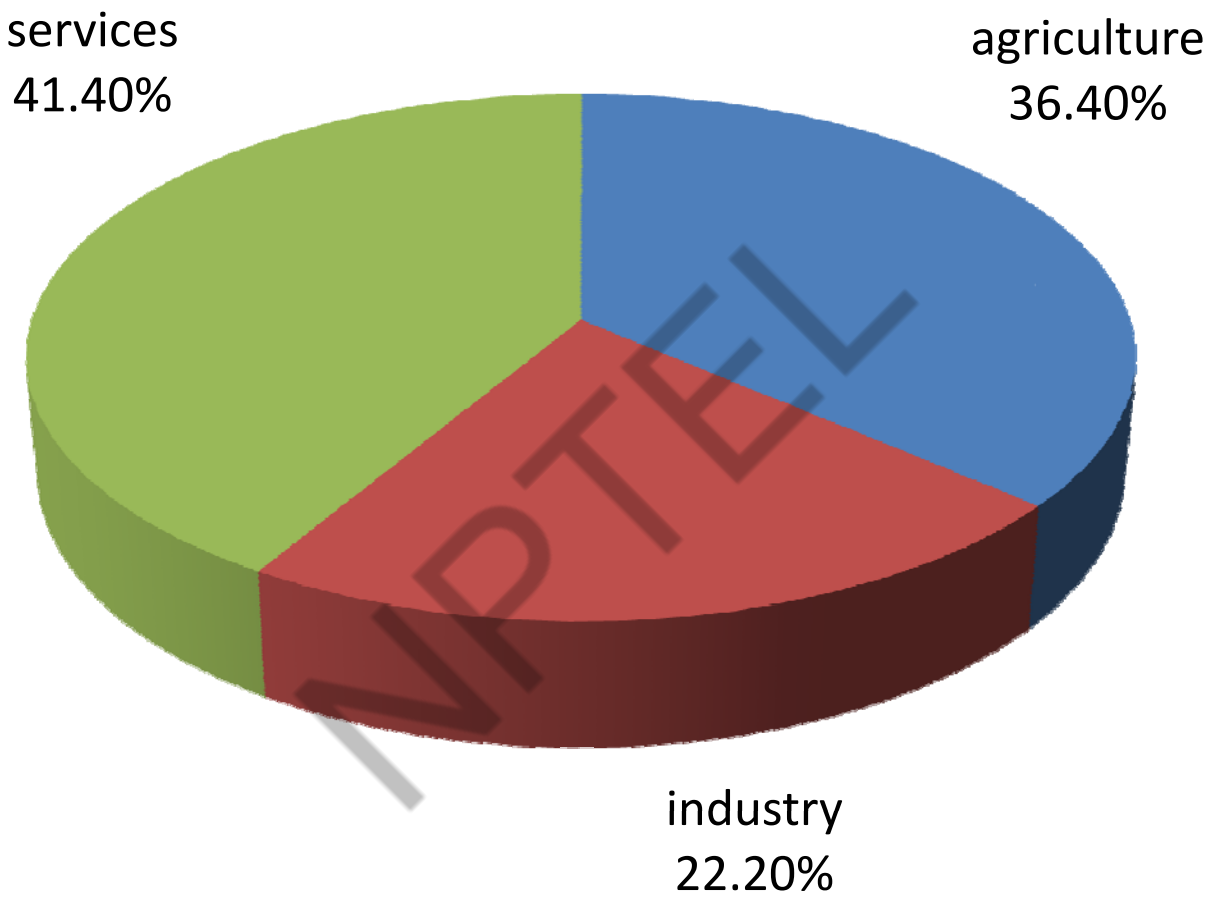


Contribution of various sectors of economy to world GDP in 2012
(Central Intelligence Agency, 2013)

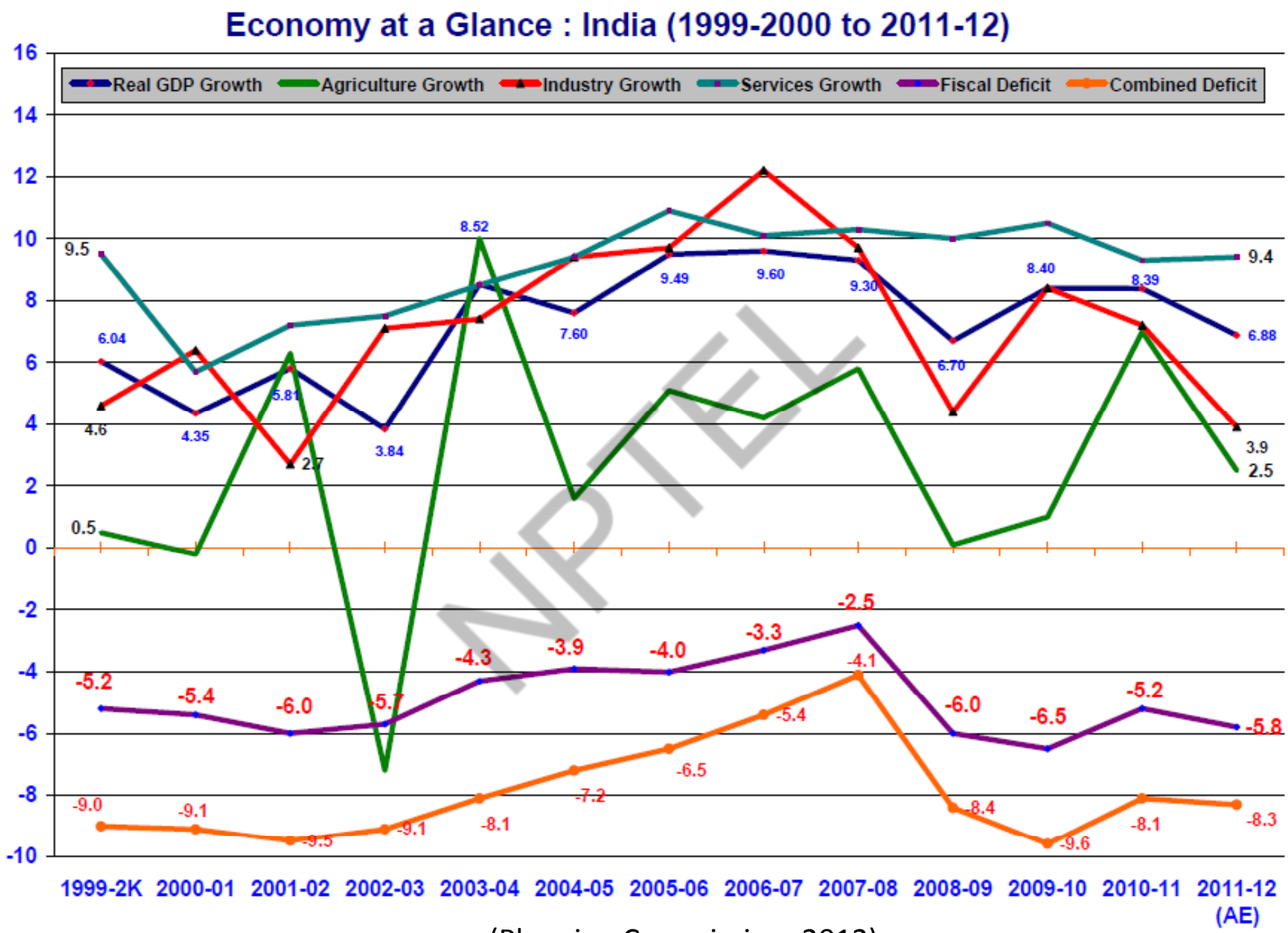
Share of services to GDP is less that agriculture or manufacturing in:

Algeria, Angola, Botswana, Congo, Equatorial Guinea, Falkland Islands, Indonesia, Iran, Iraq, North Korea, Kuwait, Laos, Lesotho, Liberia, Libya, Sierra Leone, Somalia, Swaziland, Thailand, Trinidad and Tobago, United Arab Emirates, Vietnam and Yemen.

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Labour force in various sectors of economy to world GDP in 2007
(Central Intelligence Agency, 2013)



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(Planning Commission, 2012)

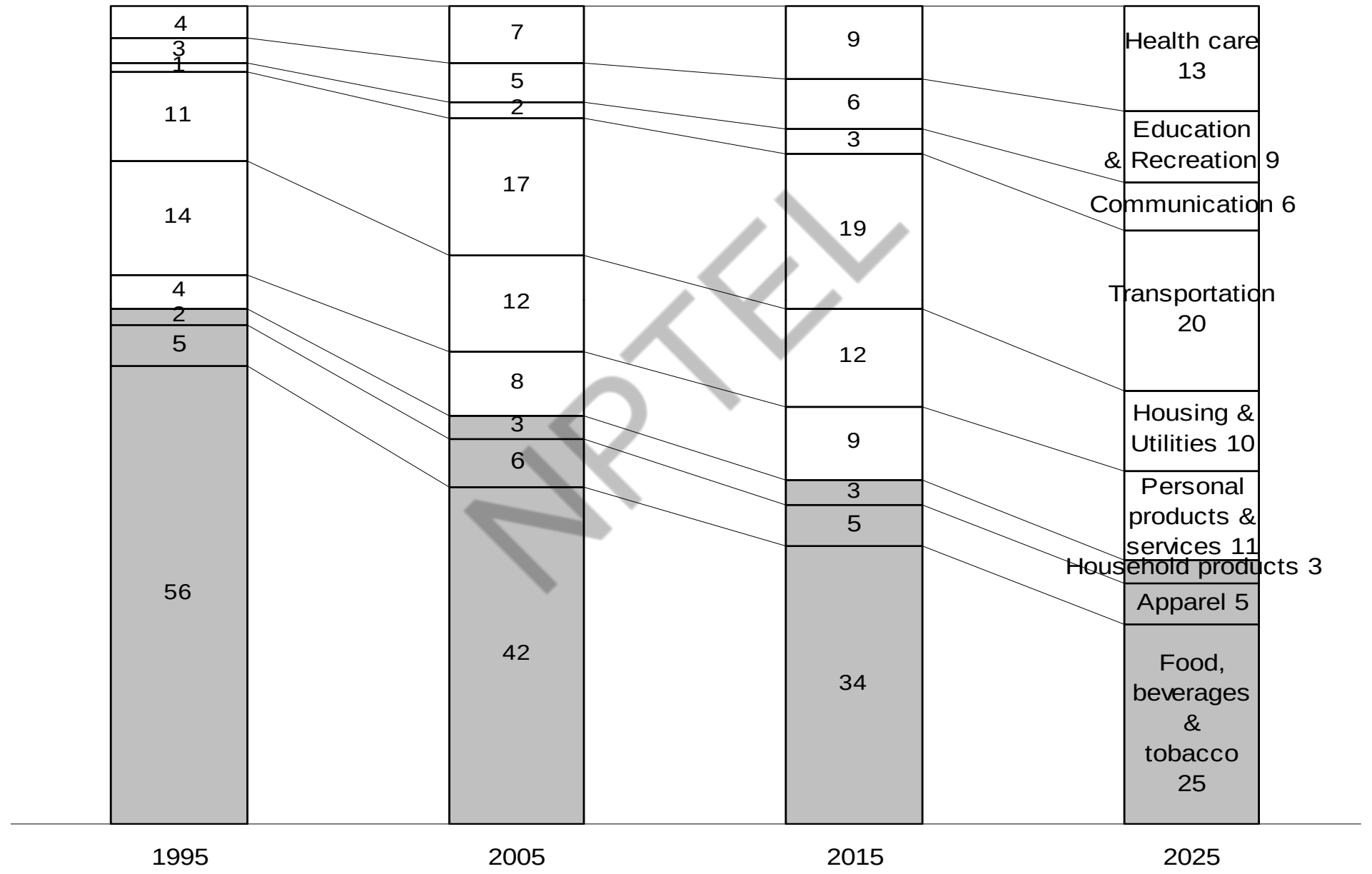
Sectoral Growth Rates, India

Indicators	IX Plan (1997-2002)	X Plan (2002-07)	XI Plan (2007-12)
Agriculture, Forestry & Fishing	2.5	2.3	3.0
Mining & Quarrying	4.0	6.0	5.2
Manufacturing	3.3	9.3	8.3
Elect. Gas & Water Supply	4.8	6.8	6.4
Construction	7.1	11.8	8.2
Trade, Hotels & Restaurant	7.5	9.6	7.0
Transport, Storage & Communications	8.9	13.8	12.3
Trade, Hotel etc. + Transport, Communications, Storage	8.0	11.2	10.0
Financing Insurance, Real Estate & Business Services	8.0	9.9	11.0
Community, Social & Personal Services	7.7	5.3	9.0
Total GDP	5.5	7.8	8.2
Industry	4.3	9.4	7.9
Services	7.9	9.3	10.1

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(Planning Commission, 2012)

Projected average annual percentage household consumption of products and services in India (McKinsey Global Institute, 2007)



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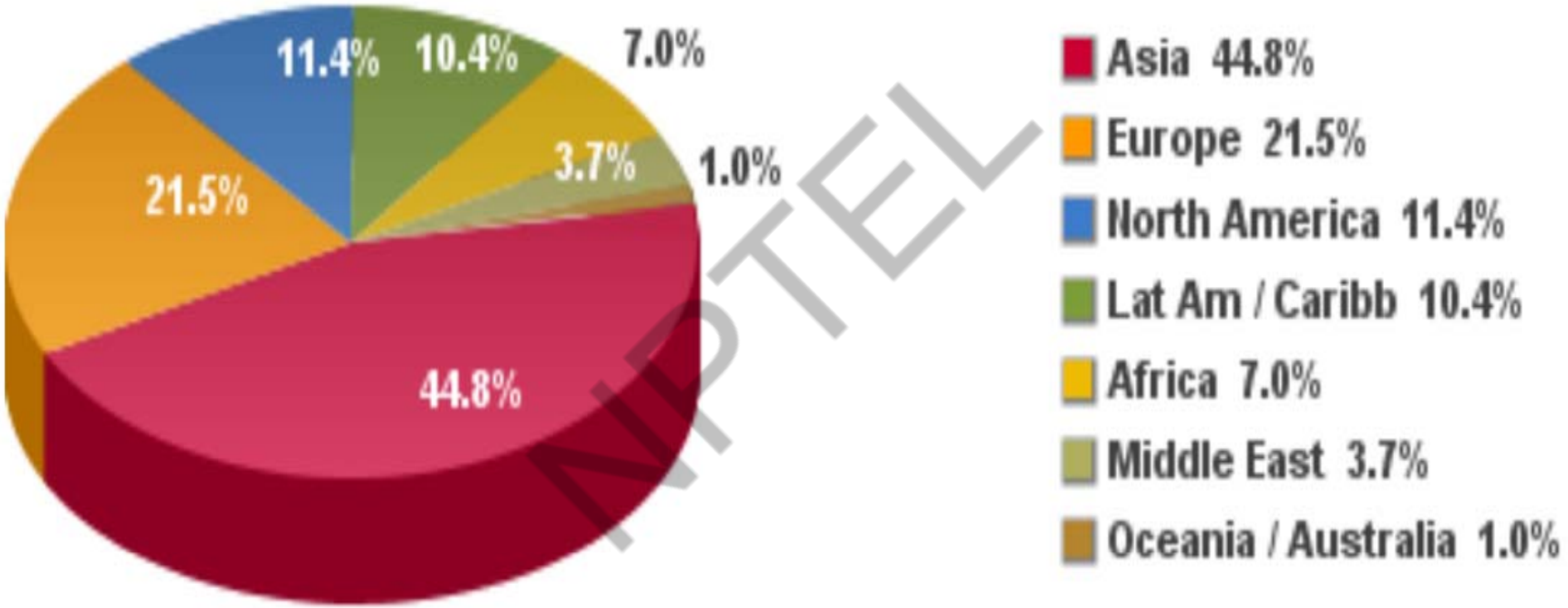
Rural Markets in South Asia

(Kotler, Keller, Koshy and Jha, 2013)

- Consumption in rural markets predicted to grow at a CAGR of 5% in the next two decades.
- Size and growth rate for many products and product categories are very attractive.
- 48 percent of the rural population is below 20 years of age.

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Internet Users in the World
Distribution by World Regions - 2012 Q2



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Source: Internet World Stats - www.internetworldstats.com/stats.htm
Basis: 2,405,518,376 Internet users on June 30, 2012
Copyright © 2012, Miniwatts Marketing Group

Missing service in services economy



MARKETMIND

ARVIND SINGHAL

Almost 58 per cent of India's GDP in 2010 is already accounted for by the services sector. With a growth rate higher than that of the manufacturing and the agriculture sector, the share of the services sector will only increase. In the services economy, retail accounts for the largest share. Information technology and telecommunication, financial services, health care, travel, hospitality and tourism, and food services are some of the other large constituents of the services sector. Almost 35 per cent of India's employment is in the services industry.

Unfortunately, while each of these constituents has grown spectacularly for many years, and continues to grow very strongly, the quality of the service offered seems to be on a steady decline. Ironically, when these constituents were much less developed, they were able to deliver noticeably higher levels of service. A relative was seriously unwell recently, and was advised to get a set of X Rays done immediately. Unfortunately, she chose to go to one of the very highly "branded" hospital chain facilities in Delhi for these tests and was told to return in the evening to collect the results. When someone went to collect the much-awaited results in the evening, the hospital very callously said that the results will be given next day since one of their senior consultants was not in the hospital that afternoon to study and sign off on the results. Finally, only on raising a hue and cry to make the hospital realise the gravity of the situation, that the patient was seriously unwell and the reports were urgently needed for further action, did that relative get her test results that evening. An airline that started with a promise of good-time to its customers (and delivered it very admirably in its initial years) now has run-down planes with broken seats, understaffed check-in counters and poorly trained check-in staff, and a visible lack of "ownership" of the customer by its customer-facing staff across all levels. An iconic Nature-cure resort on the outskirts of Bangalore which delivered extraordinarily efficient and effective service to its patients for more than three decades now finds its systems unable to handle the doubled capacity of intake and the first signs of patchiness of service are already visible to many but its visionary founder. Sales associates at some of India's oldest and largest modern retail businesses are increasingly unable to provide any worthwhile assistance or information to their shoppers notwithstanding claims of significantly enhanced expenditure by such businesses on deployment of technology to measure customer loyalty and on recruitment and training of the floor sales staff. Telecom service providers, even with the intense competition eroding their margins, continue to believe that expensive rebranding exercises and creative advertising ideas will help in acquisition or retention of customers, even as the hapless consumer continues to get bombarded by junk messages and phone calls, and worsening call-drop statistics.

There are many reasons behind the precipitous decline in the quality of service across most consumer-facing businesses. First, since these businesses continue to grow steadily, their promoters and top leadership continue to believe that "all is well" and an isolated customer complaint now and then can be attributed to the unreasonableness of that complainant himself. Second, in the quest to best competition in terms of scaling up, most of these businesses have not invested or are not investing enough to hire and train the foot soldiers, and instead, are diverting every available rupee to add more physical capacity to acquire more customers. Thirdly, the country is already very deficient in vocational training to start with. Whatever vocational training capacity exists in the country is largely oriented either towards manufacturing jobs or towards IT sector opportunities. Hence, there are large masses of young adults ready to get into jobs, most of which are being created in the services sector, and yet they have no training whatsoever other than a (mediocre) school-leaving mark sheet or a college degree that is something not much to speak about. A few days or a couple of weeks of "training-on-the-job" cannot substitute formal vocational training.

It would, therefore, be wise for most of the services businesses to contemplate taking a pause and use that to sharpen the focus on customer service. She may be forced to bear with bad service today but at the first opportunity, will strike back with vengeance.

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(Singhal, 2010)

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Lesson 3 The Service System

The Service System

The Servuction System

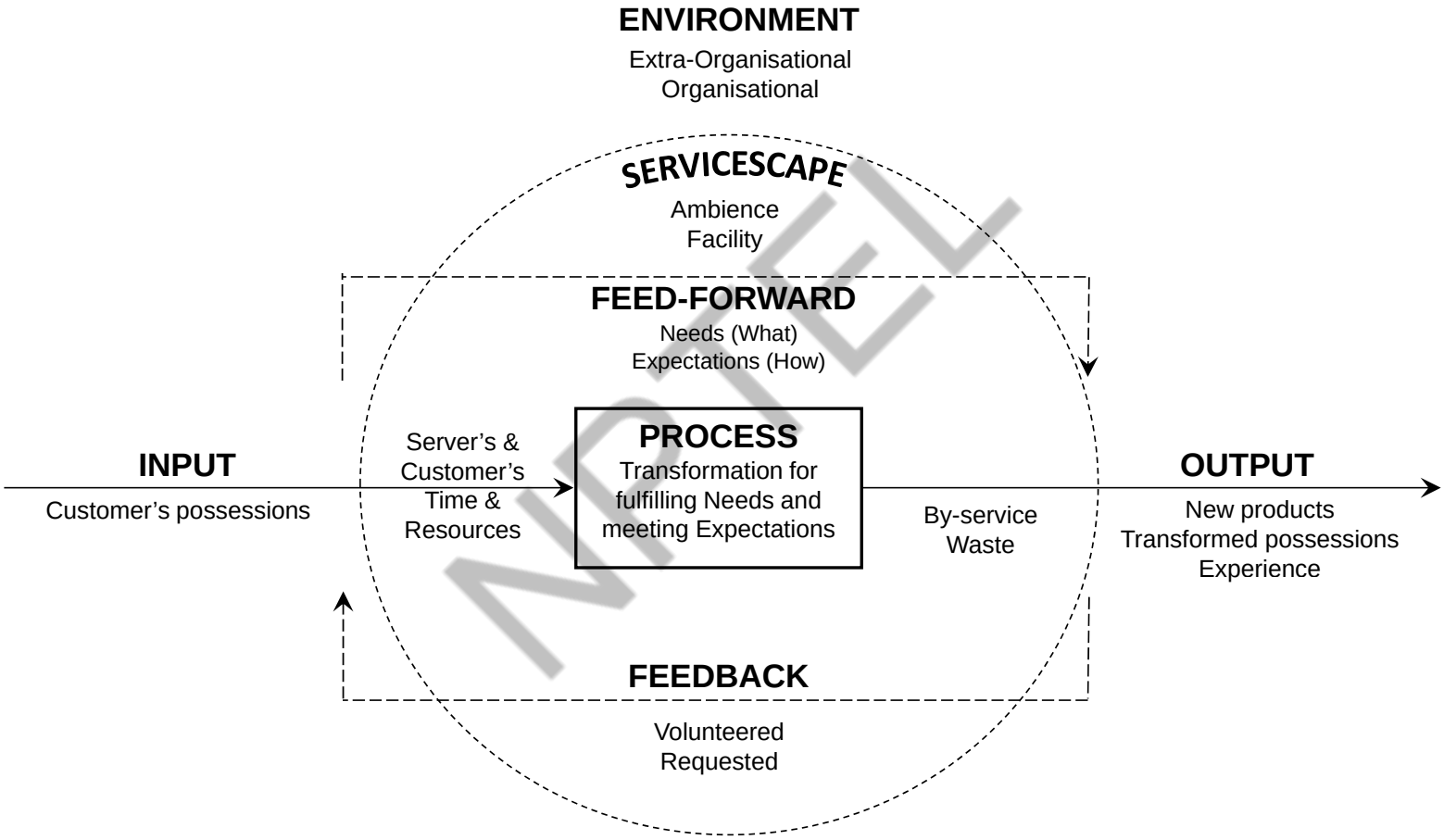
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A System

A system can be described as a black box in which a transformation activity performs on an input to produce an output.

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The Service System



Model of the Service System

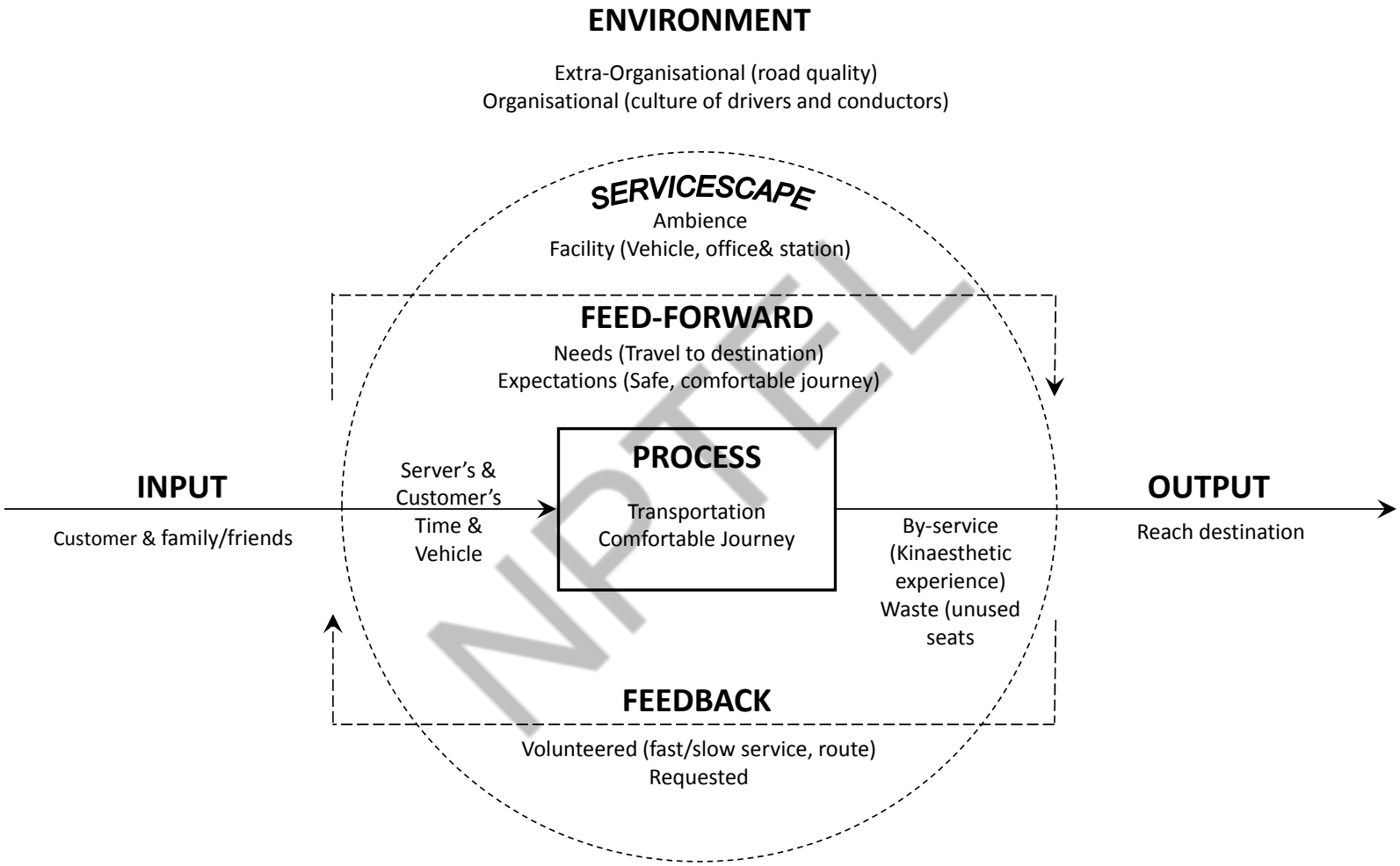
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The Transformation Process

The transformation process may be of the following types:

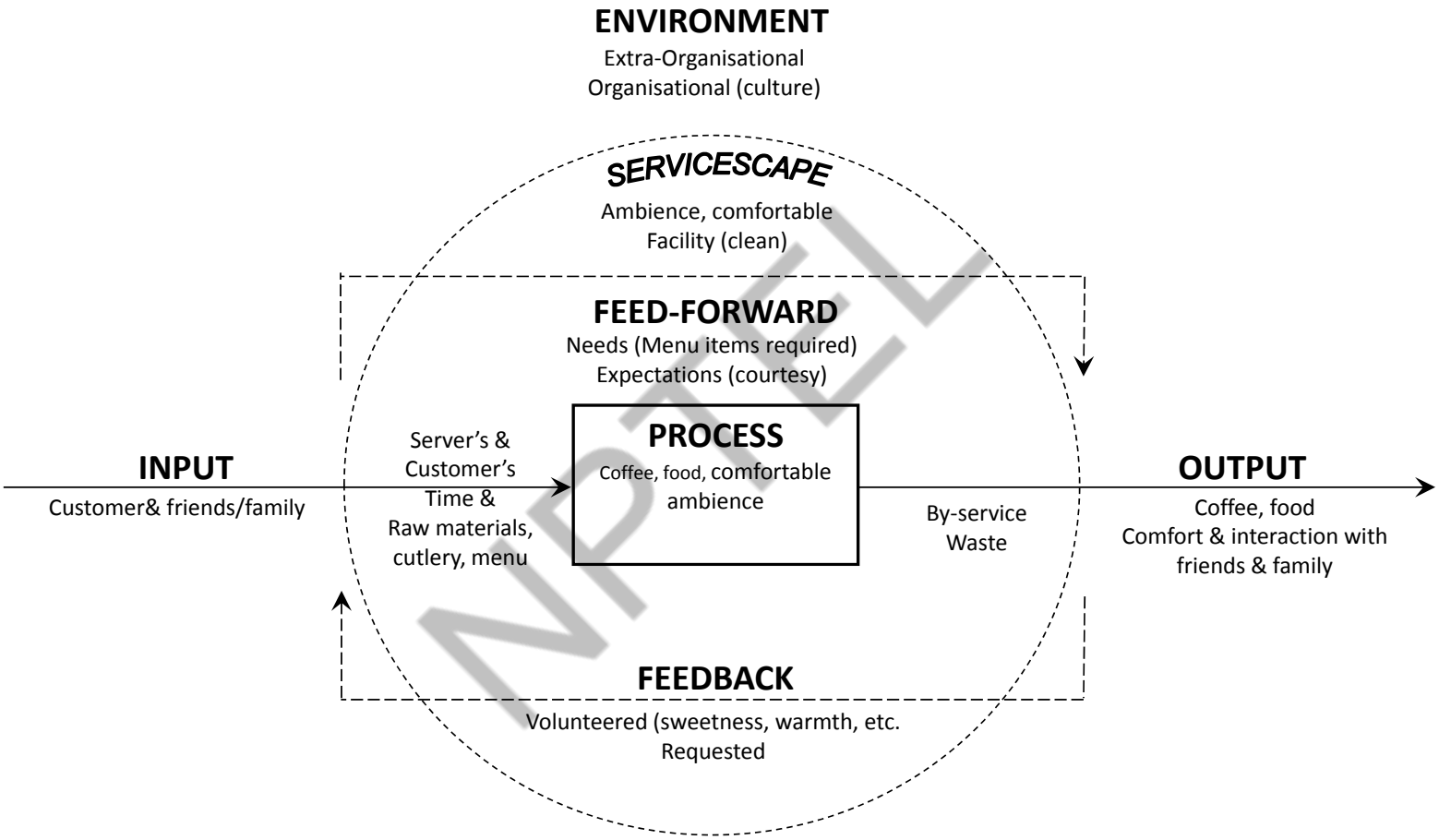
1. exchange (e.g. trading and barter services)
2. informational (e.g. investigation and communication services)
3. intellectual (training and education services)
4. locomotion (e.g. transport and travel services)
5. physical (e.g. repair and remodelling services)
6. physiological (e.g. beauty and healthcare services)
7. psychological (e.g. counselling and entertainment services)
8. spatial (e.g. experience of ambience and location, like museum, art galleries, movies etc.), and;
9. temporal (e.g. parking, leasing, hiring and storage services)

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Model of transportation service

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Model of Cafe Coffee service

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The Servuction System

(Eiglier and Langeard, 1977
(Langeard, Bateson, Lovelock and Eiglier, 1981)

- The servicescape (visible)
- Contact personnel/service providers (visible)
- Other customers (visible)
- Organisation and systems (invisible)

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The Servuction System - Service as a Performance

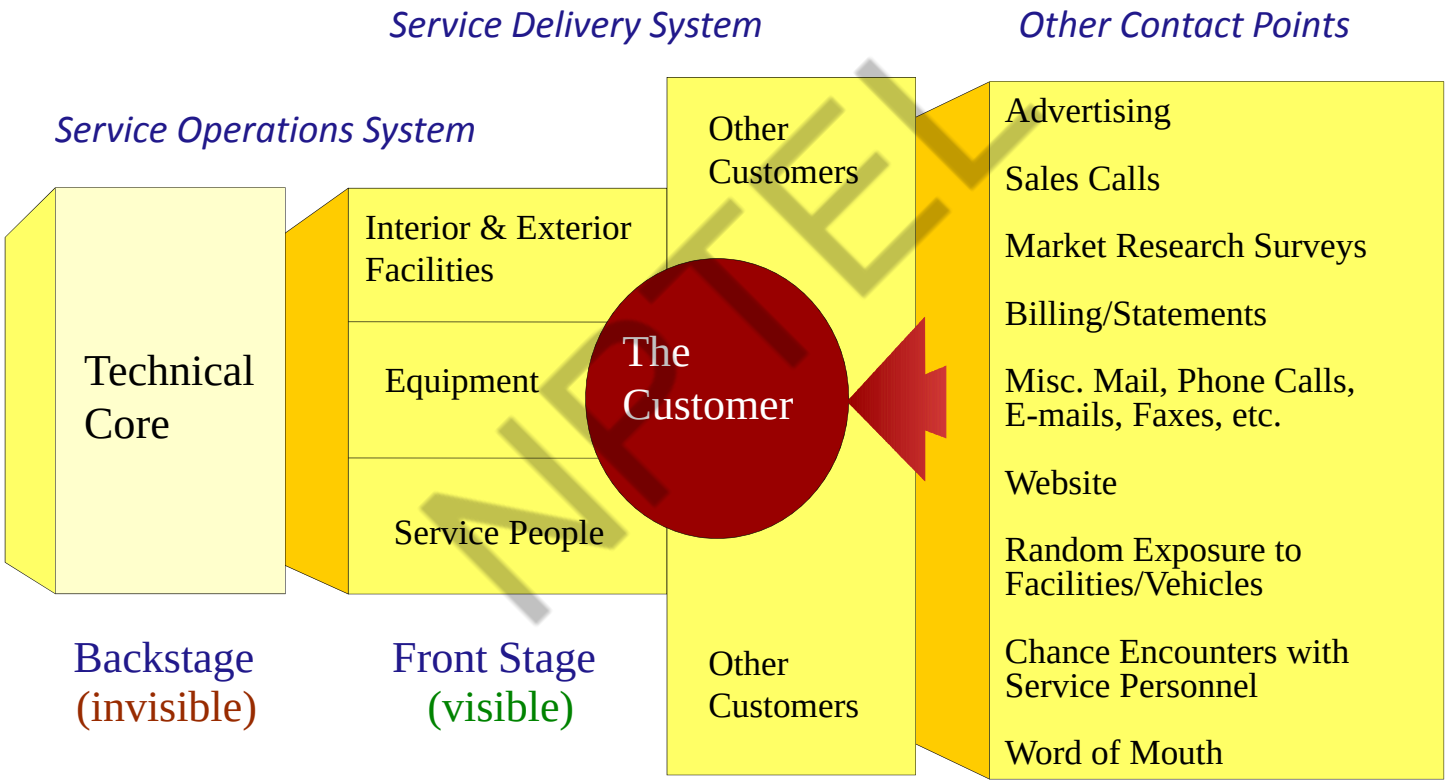
(Lovelock, Wirtz and Chatterjee, 2010; Grove, Fisk and John, 2000)

- Service Operations (front stage and backstage)
  - Where inputs are processed and service elements created
  - Includes facilities, equipment, and personnel
- Service Delivery (front stage)
  - Where “final assembly” of service elements takes place and service is delivered to customers
  - Includes customer interactions with operations and other customers
- Service Marketing (front stage)
  - Includes service delivery (as above) and all other contacts between service firm and customers, like advertising, billing, web support, participation in market research studies, etc.

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Service Marketing System for a High-Contact Service

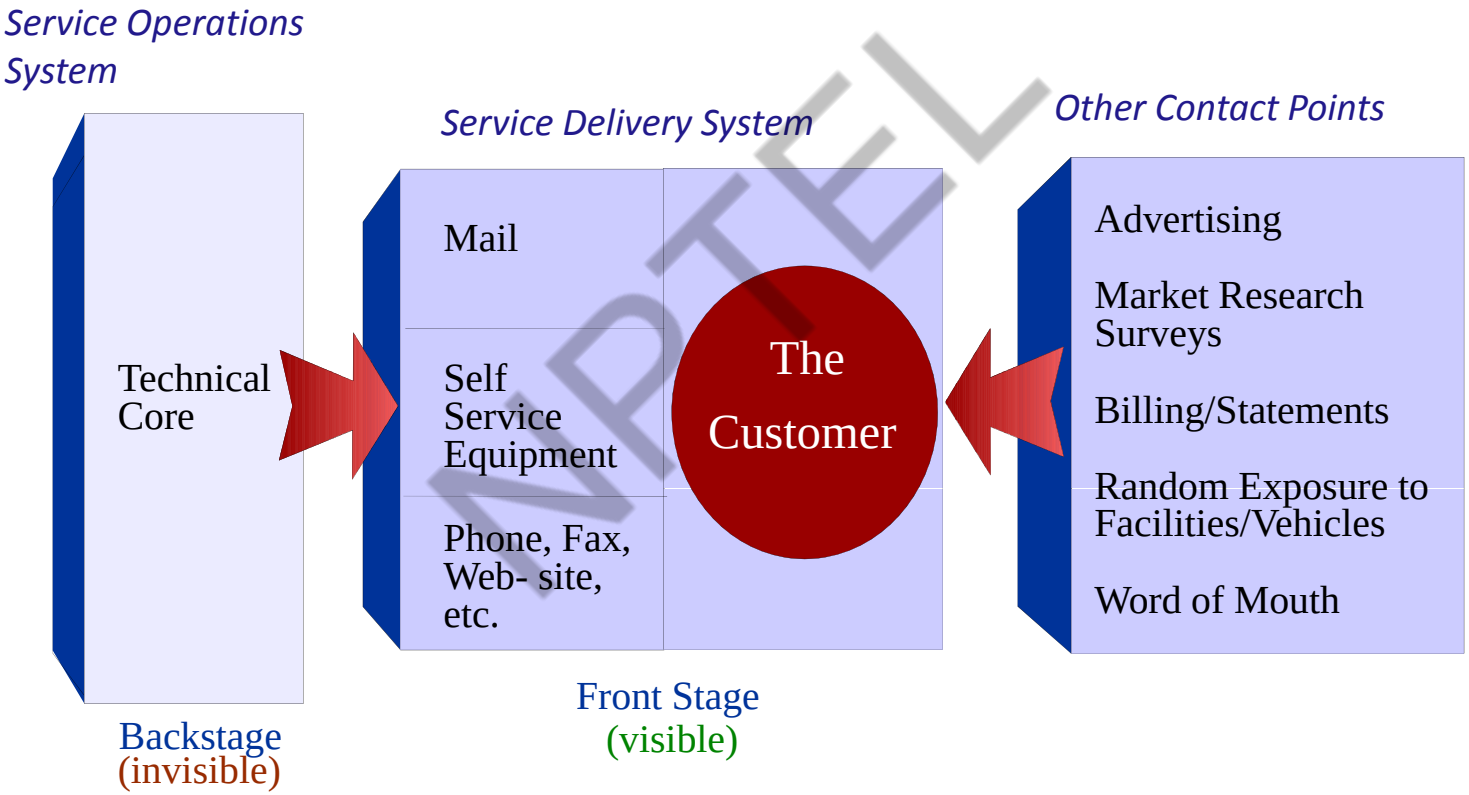
(Lovelock, Wirtz and Chatterjee, 2010)



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Service Marketing System for a Low-Contact Service

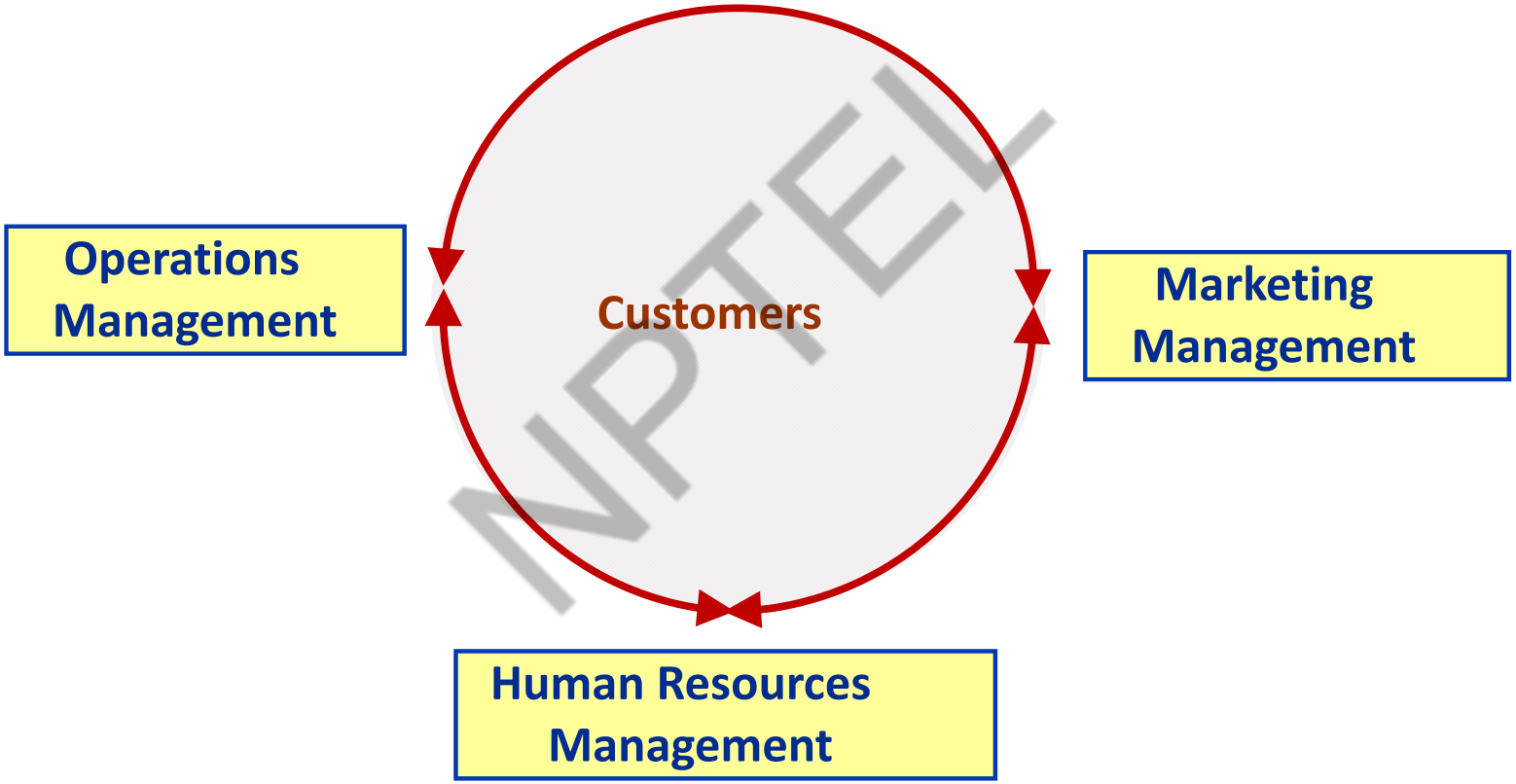
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Integrated Management of the Service System

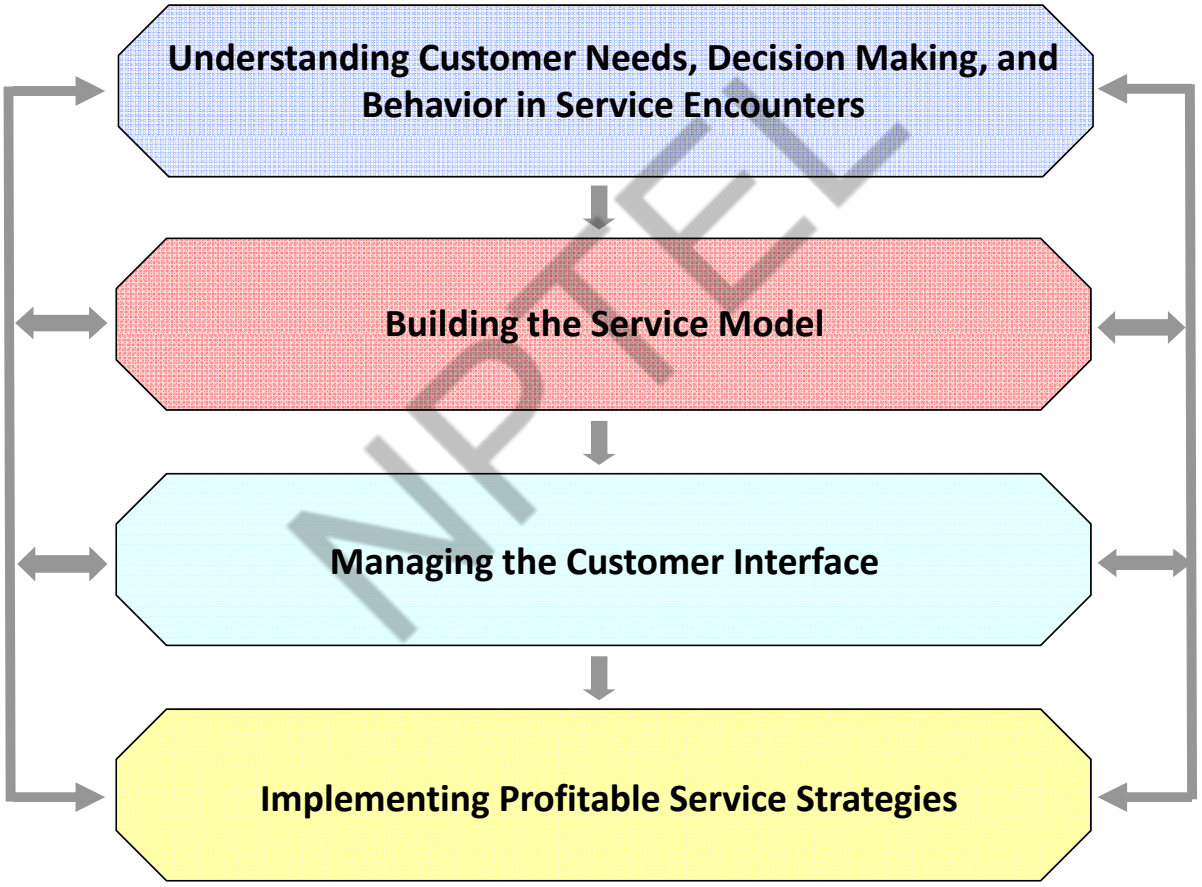
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A Framework For Developing Effective Service Marketing Strategies: An Overview

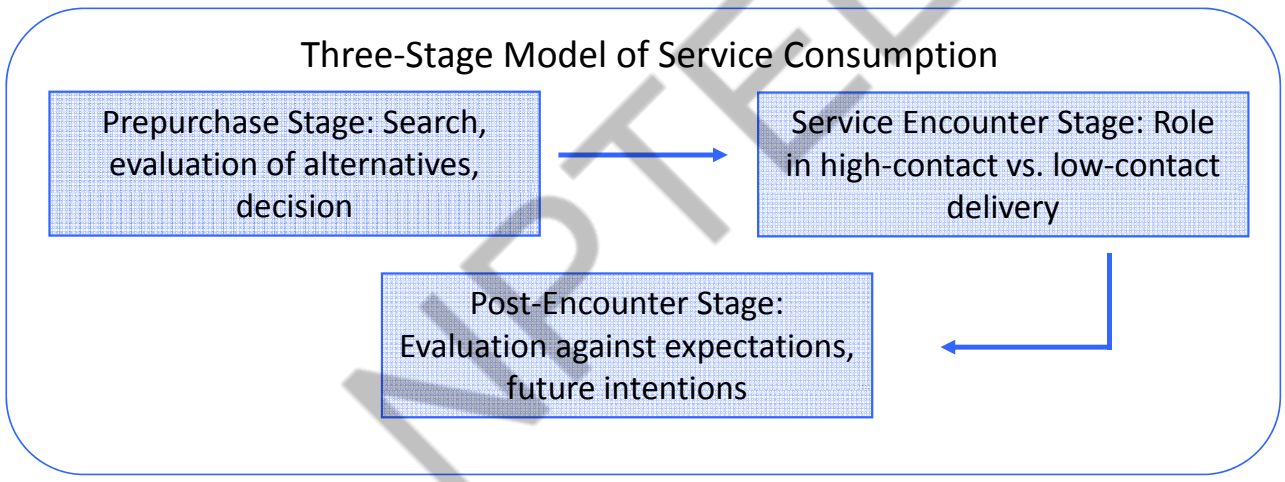
(Lovelock, Wirtz and Chatterjee, 2010)



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Part I: Understanding Customer Needs, Decision Making, and Behavior in Service Encounters

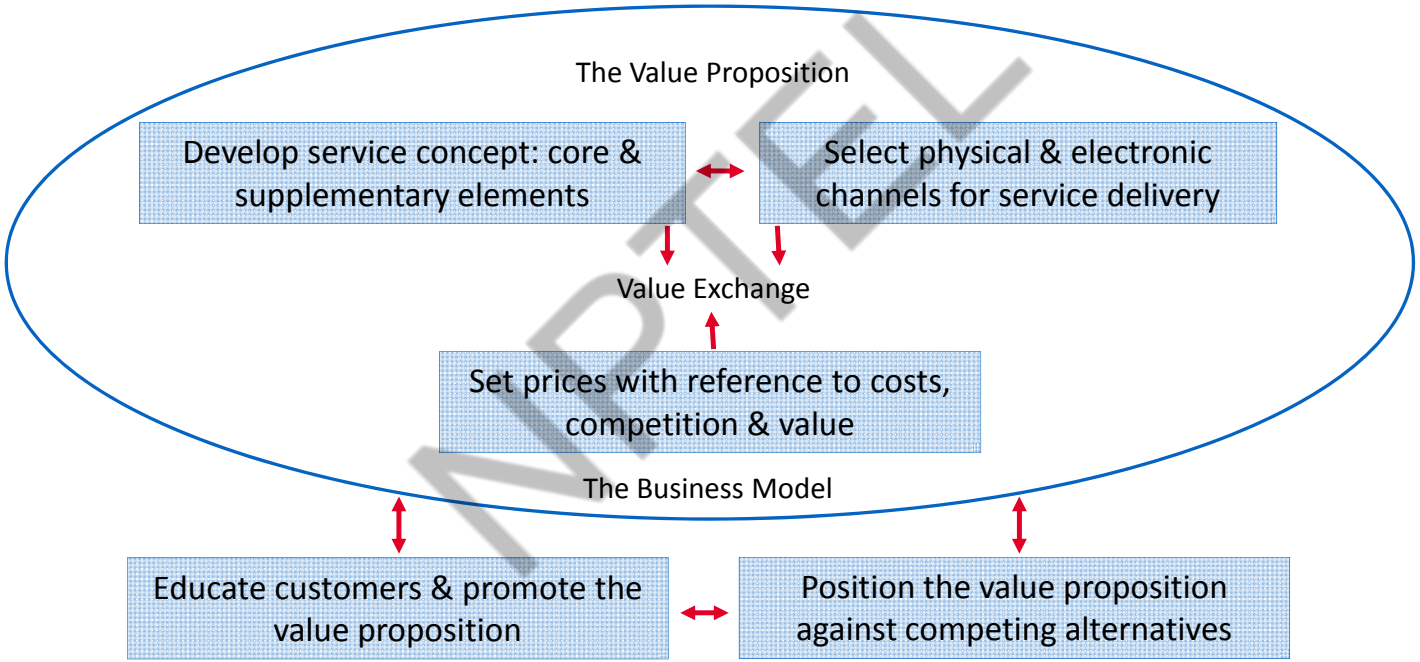
(Lovelock, Wirtz and Chatterjee, 2010)



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Part II: Building The Service Model

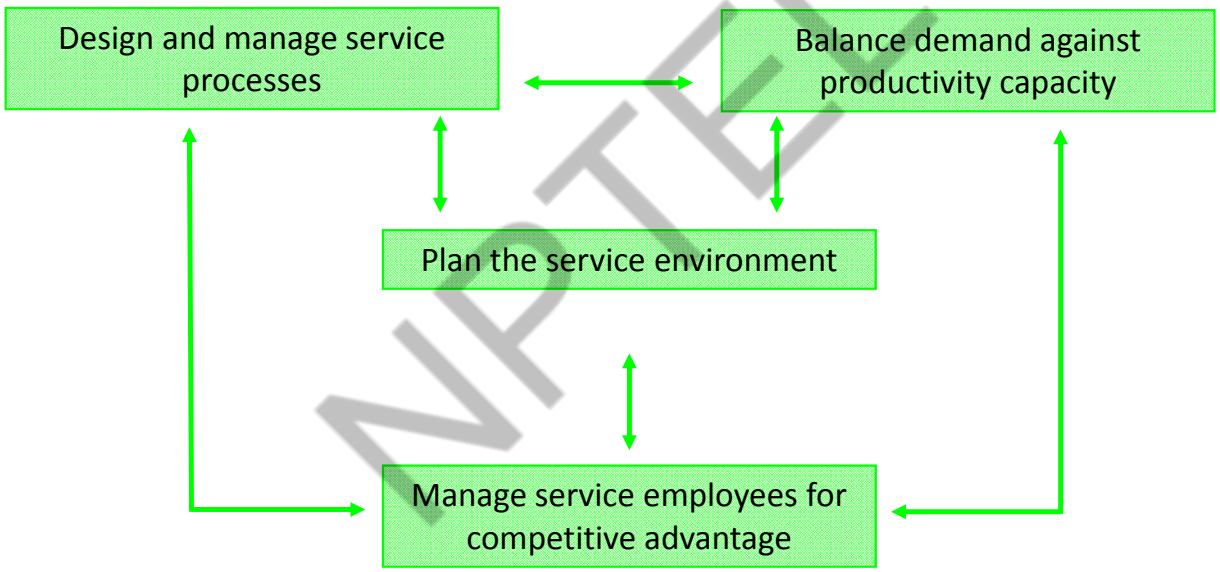
(Lovelock, Wirtz and Chatterjee, 2010)



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Part III: Managing the Customer Interface

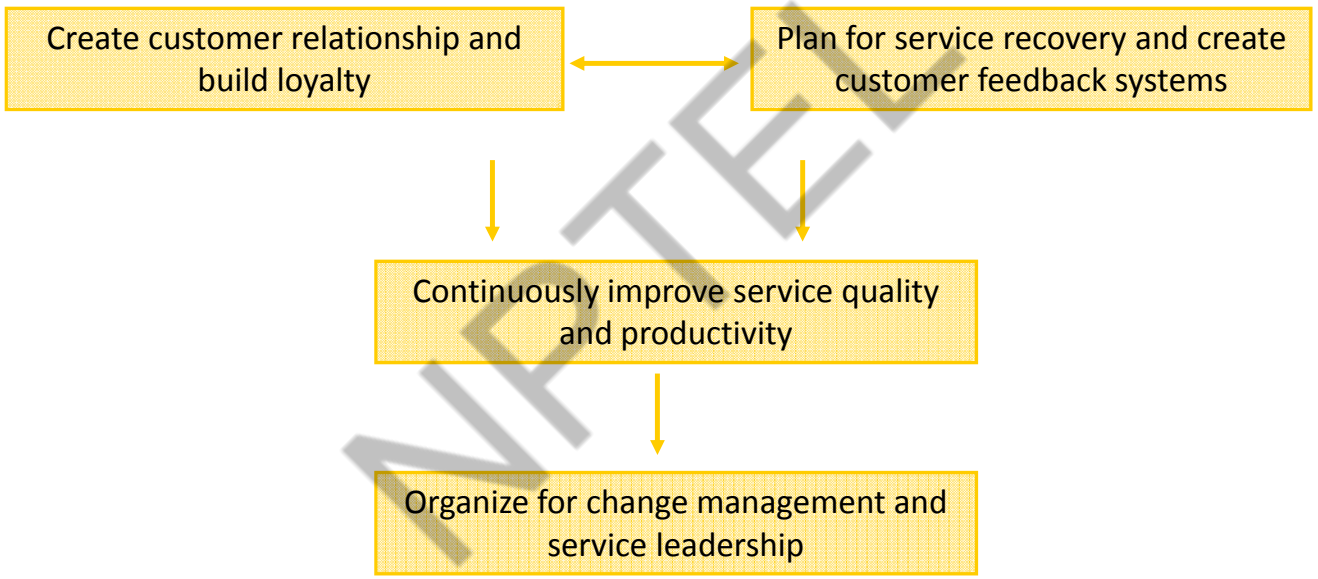
(Lovelock, Wirtz and Chatterjee, 2010)



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Part IV: Implementing Profitable Service Strategies

(Lovelock, Wirtz and Chatterjee, 2010)



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SERVICES MARKETING
A Practical Approach

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Lesson 4 Characteristics of Services

Definition of Services

The Service Product Bundle

Service Types and Challenges for Managers

The Service Package

Characteristics of Services and their Implications

Strategic Service Classifications

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Definition of Services

Services can thus be defined as *those activities that provide intangible benefits and experiences to customers while transforming their possessions*.

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Service/Product Bundle

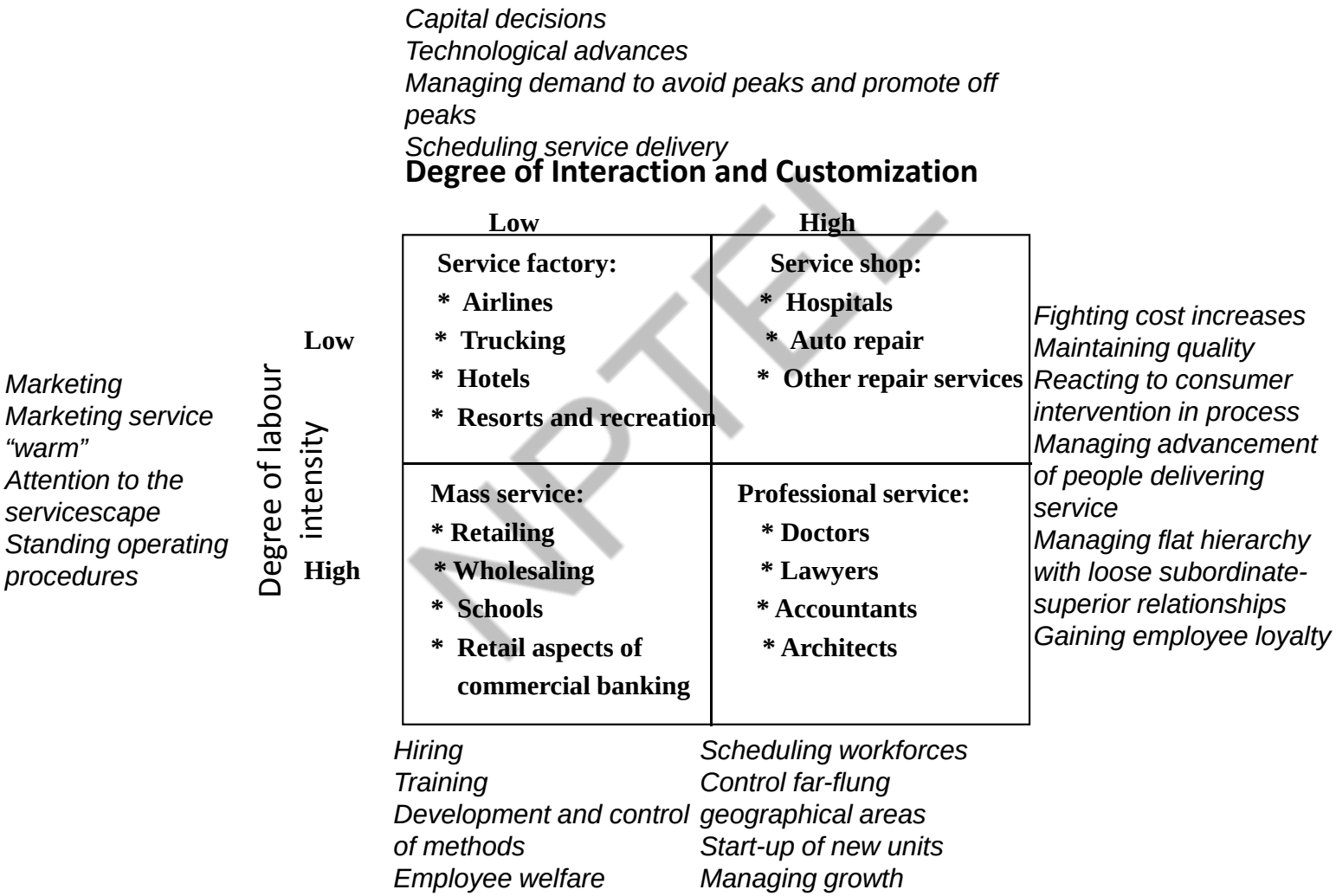
(Collier, 1994)

Element	Core *Goods* Example	Core *Service* Example
Business	Custom clothier	Business hotel
Core	Business suits	Room for the night
Peripheral Goods	Garment bag	Bath robe
Peripheral Service	Deferred payment plans	In house restaurant
Variant	Coffee lounge	Airport shuttle

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Service Types and *Challenges for Managers*

(Schmenner, 1986)



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The Service Package

(Fitzsimmons & Fitzsimmons, 2006)

- Supporting Facility: The physical resources that must be in place before a service can be sold. Examples are golf course, ski lift, hospital, airplane.
- Facilitating Goods: The material consumed by the buyer or items provided by the consumer. Examples are food items, legal documents, golf clubs, medical history.
- Information: Operations data or information that is provided by the customer to enable efficient and customized service. Examples are patient medical records, seats available on a flight, customer preferences, location of customer to dispatch a taxi.
- Explicit Services: Benefits readily observable by the senses. The essential or intrinsic features. Examples are quality of meal, attitude of the waiter, on-time departure.
- Implicit Services: Psychological benefits or extrinsic features which the consumer may sense only vaguely. Examples are privacy of loan office, security of a well lighted parking lot.

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Characteristics of Goods and Services

(Zeithaml, Parasuraman, and Berry, 1985)

Goods	**Services**
	Primary characteristics
Tangible	Intangible
Production separate from consumption	Simultaneous production and consumption
	Secondary characteristics
Standardized	Variable
Nonperishable	Perishable

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Implications of Intangibility

Implications
Services cannot be inventoried. Services cannot be patented. Services cannot be readily displayed or communicated. Pricing is difficult.
Solutions
Use tangible cues to communicate the features of a particular service. Stimulate, manage and promote word-of-mouth communications. Create strong branding. Use activity based costing approach to help set prices.

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Implications of Simultaneous Production and Consumption

Implications
Customers participate in and affect the transaction. Customers affect each other. Employees affect the service outcome. Service outcome depends on the interaction between employees and customers. Decentralization of production may be essential. Mass production is difficult.
Solutions
Employees must be selected and trained to deliver superior quality service during interactions with the customers. Allow other customers to influence positively. Disallow other customers to influence negatively. Achieving standardisation (mechanization) to the extent possible and acceptable to customers. Focus on personal attention while providing customized services. Use multi-site service delivery locations.

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Implications of Variability

Implications
Service delivery and customer satisfaction depend on employee actions. Service quality depends on many uncontrollable factors. There is no sure knowledge that the service delivered matches what was planned and promoted.
Solutions
Stress upon standardisation. Focus on employee training, performance evaluation and internal marketing. Industrialize service, i.e. provide pre-packaged standard offerings like tour packages (Levitt (1972 and 1976). Provide customized services and make it part of the value proposition.

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Implications of Perishability

Implications
Difficult to synchronize supply and demand. Services cannot be returned or resold. Services cannot be sampled.
Solutions
Match supply and demand (Sasser, 1976). Recover the service in case of errors. Allow customers to sample part of the service being currently provided.

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Strategic Service Classifications

(Lovelock, 1983)

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Nature of the Service Act

(Identify convenient forms of delivery)

Nature of the Service Act	Direct Recipient of the Service: People	Direct Recipient of the Service: Things
Tangible actions	**People's bodies:** Health care Passenger transportation Beauty salons Exercise clinics Restaurants	**Physical possessions:** Freight transportation Repair and maintenance Veterinary care Janitorial services Laundry and dry cleaning
Intangible actions	**People's minds:** Education Broadcasting Information services Theaters Museums	**Intangible assets:** Banking Legal services Accounting Securities Insurance

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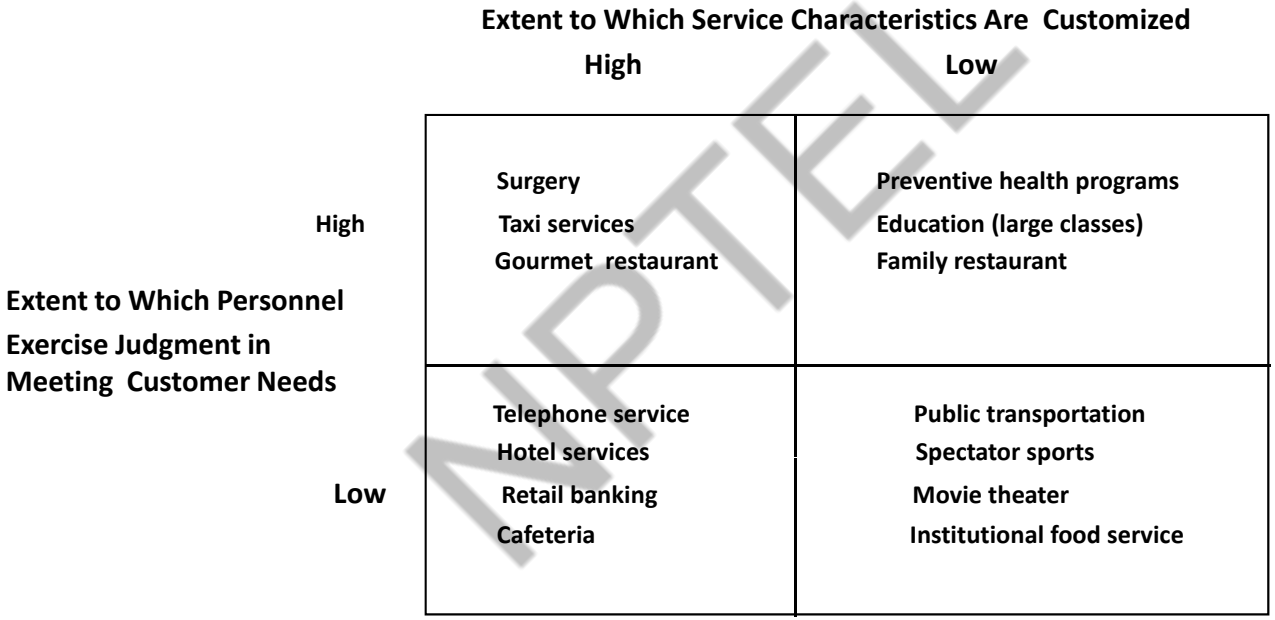
Relationship with Customers

Type of Relationship between Service Organization and Its Customers

Nature of service delivery	"Membership" relationship	No formal relationship
Continuous delivery of service	Insurance Telephone subscription Electric Utility Banking	Radio station Police protection Lighthouse Public Highway
Discrete transactions	Long-distance phone calls Theater series tickets Transit pass Sam's Wholesale Airline frequent flyer	Restaurant Pay phone Toll highway Movie theater Public transportation

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Customization and Judgment



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Nature of Demand and Supply

Extent to which Supply Is Constrained	Extent of Demand Fluctuation over Time: Wide	Extent of Demand Fluctuation over Time: Narrow
Peak demand can usually be met without a major delay	Electricity Telephone Police emergency Hospital maternity unit	Insurance Legal services Banking Laundry and dry cleaning
Peak demand regularly exceeds capacity	Tax preparation Passenger transportation Hotels and motels	Fast food restaurant Movie theater Gas station

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Method of Service Delivery

Nature of Interaction between Customer and Service Organization	Availability of Service Outlets: Single site	Availability of Service Outlets: Multiple site
Customer travels to service organization	Theater Barbershop	Bus service Fast-food chain
Service provider travels to customer	Taxi Pest control service	Mail delivery Emergency repairs
Transaction is at arm's length	Credit card company Local TV station	Broadcast network Telephone company

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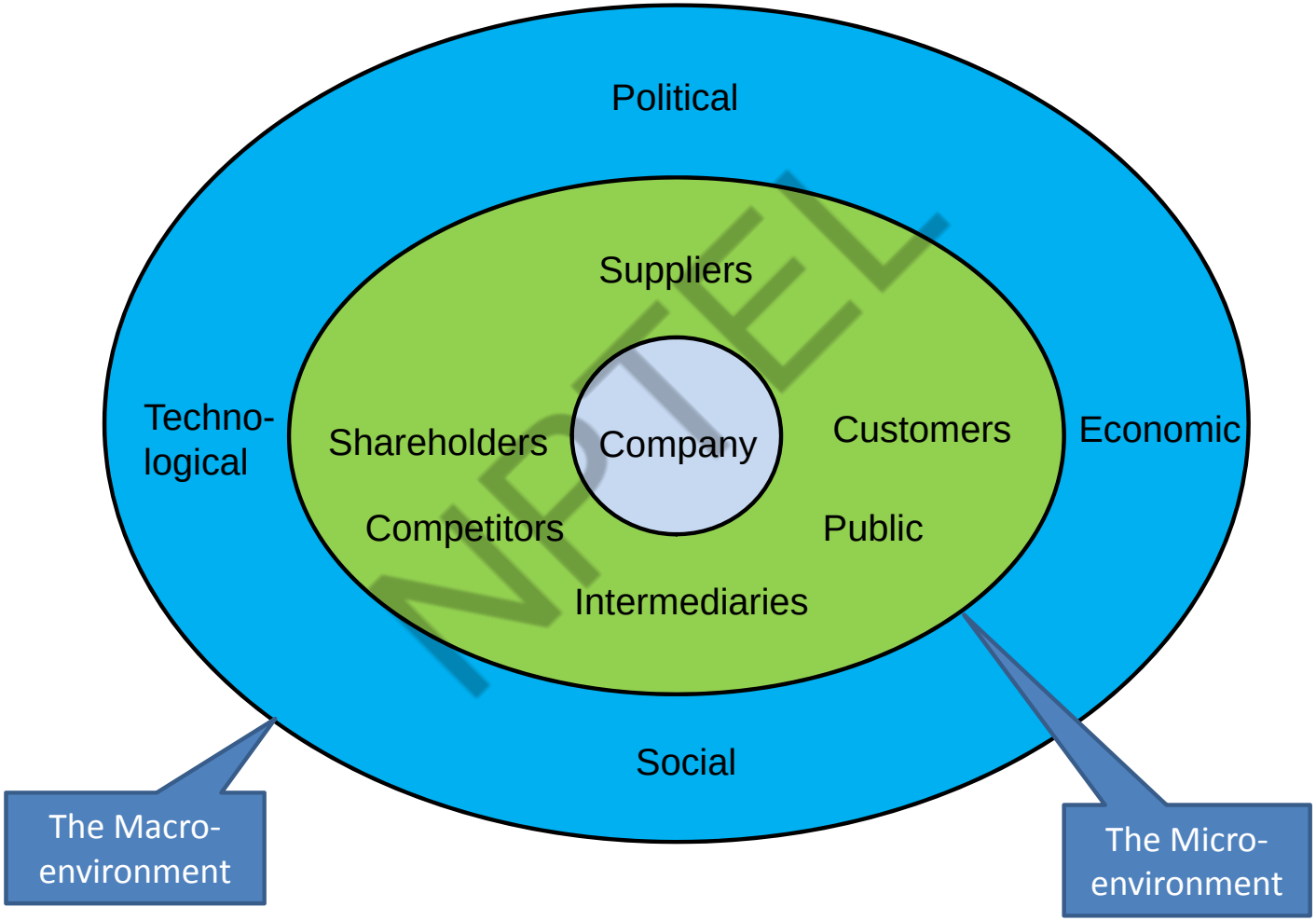
Lesson 5 Understanding the Macro Environment - I

Analysing the Macro Environment

The Political Environment

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The Business Environment



Analysing the Macro Environment

The macro environment is an independent variable that affects any company and determines whether the company would be able to produce and deliver its services in harmony with the prevailing business environment.

Political, Economic, Social and Technological dimensions of the business environment can be analysed using the PEST analysis.

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The Political Environment

We must analyse the political environment to make sure that our company is operating within legal boundaries and are congruent with common business practice.

We must be aware of the impact of changing political powers on our business. We must also understand how political practices can enable or hinder the growth of our business.

For example, mandatory recycling laws have boosted the recycling industry. For instance, food service companies like Nestle and Starbucks recycle their paper cups.

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The Political Environment

The political environment of a business can be analysed in terms of:

1. business legislation, and,
2. the activity of special interest groups

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Business Legislation

The aim of business legislation is to:

1. protect companies from unfair competition,
2. protect consumers from unfair business practices,
3. protect the interest of society from unbridled business behaviour, and
4. charge businesses with the social costs created by their products or production processes.

Although each new law has a legitimate rationale, it can have unintended effect of sapping initiative and restricting business growth.

In India, the Competition Commission has been set up under the Competition Act, 2002 to promote and sustain competition and protect the interest of consumers through legislation.

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I. Business Legislation

Business legislation can be further analysed in terms of five factors, namely:

1. laws and regulations,
2. legislation,
3. administration,
4. adjudication, and
5. lobbying

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1. Laws and regulations

Laws and regulations refer to bills that have been passed or are in effect. Examples of laws and regulations that can affect our business are:

- price controls on room tariffs and other charges in a hotel
- taxes
- licensing of barber shops, pools, restaurants, night clubs, bars, etc.
- tax holidays
- safety standards
- building by-laws
- minimum labour wages
- available police force

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1. Laws and regulations

A list of important laws related to conducting business in India is given below:

Business Legislation in India

Act	**Year**
Prevention of Food Adulteration Act	1954
Drugs Control Act	1954
Company Act	1956
Standard Weights and Measures Act	1976
Display of Price Order	1963
Indian Patents Act	1970
Packaged Commodities (Regulation) Order	1975
Consumer Protection Act	1986
Water (Prevention and Control of Pollution) Act	1974
Air (Prevention and Control of Pollution) Act	1981
Environment (Protection) Act	1986
Competition Act	2002

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2. Legislation

Legislation refers to the process by which bills are passed, rejected or shelved. Examples of legislation that can affect our business are:

- raising and passage of bill introducing value added and service tax
- raising and passage of bill introducing quotas in hiring of employees
- raising and passage of bill closing night clubs in hotels, or that banning gambling

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3. Administration

Administration refers to how laws and regulations are managed and enforced by governments. Examples of administration that can affect our business are:

- government's grading system of a hotel
- waiver on import duties on materials required for construction or refurbishment of a service facility
- restriction on business hours of a service
- controls on purchasing systems
- national airline policies that dictate the entry or exit of tourists from a country
- integrity and corruption in the business environment

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4. Adjudication

Adjudication refers to where and how laws and regulations are enforced. Examples of adjudication that can affect our business are:

- court decisions on enforcement of service contracts
- decisions of consumer courts
- court decisions on legal implications of overbooking and infringement of consumer rights
- overall integrity of the judicial system and quality of the judiciary
- enforceability of foreign judgments or arbitration awards

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5. Lobbying

Lobbying refers to the activity of interest groups to influence lawmakers and administrative officials to meet their interests. Examples of lobbying that can affect our business are:

- access to government officials either directly or through an association
- use of the service association as a lobbying group
- existing laws related to lobbying
- ability to hire executives who are knowledgeable of the working of government officials and the ability to manage government involvement on the working of a service organisation

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II. Activity of special Interest groups

An important force affecting businesses worldwide, and particularly in India, is the Consumerist Movement. The Government of India passed the Consumer Protection Act 1986 under which six rights of consumers have been recognised. These include:

1. Safety: The right to be protected against the marketing of goods and services that are hazardous to life and property.
2. Information: To protect consumers against unfair trade practices, and the right to be informed about the quality, quantity, purity, standard and price.
3. Choice: The right to choose a variety of products and services at competitive prices.
4. Representation: The right to be heard and be assured that the consumer's interests will receive due consideration at appropriate forum.
5. Redress: the right to seek redress against unfair and restrictive trade practices, and unscrupulous exploitation of consumers.
6. Consumer education: The right to be educated about products and services.

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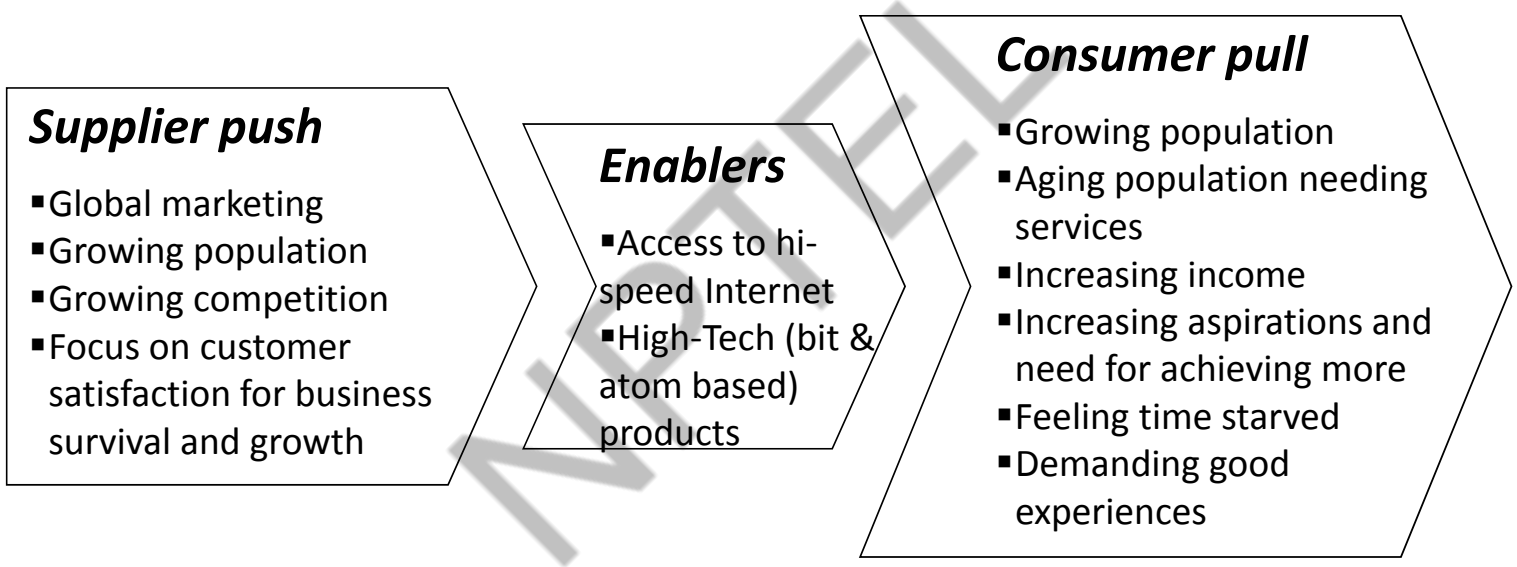
Lesson 6 Understanding the Macro Environment - II

The Social Environment

The Economic Environment

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The Social Environment



Reasons for Growth in Services

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The Global Society

Around 7 billion people inhabit the world today. If the world were a village of 1,000 people, it would consist of 329 males and 325 females who are 15 to 65 years old, 270 children and 76 people who are 65 years and older. There would be 180 illiterates who are 15 years and older. There would be 333 Christians, 210 Muslims, 132 Hindus, 118 non-religious people, 59 Buddhists, 35 Sikhs, 23 Jews and 12 Baha'is among others. 127 people would speak Chinese as their first language, 49 Spanish, 49 English, 33 Arabic, 27 Hindi, 27 Bengali, 27 Portuguese, 22 Russian, 18 Japanese, 14 Standard German and 13 Javanese among others.

What services do they require and how can we deliver those?

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The Social Environment

The culture of the population also affects the acceptability of the services that we wish to offer. Culture consists of values, beliefs and attitudes of the people as individuals and in groups.

For instance, McDonald's had to offer vegetarian foods cooked in vegetarian oils when it faced resistance from the Indian population over the usage of non-vegetarian oils for cooking vegetarian meals.

We must also understand the fashion, fads, trends and the prevailing tastes of people. Prevailing trends can be understood from websites such as trendreports.com and trendwatching.com and journals such as Trends journal.

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The Social Environment

The tastes and preferences, purpose, method, occasion, quantity of consumption and the values associated with consumption of a service can differ from culture to culture.

It is almost impossible to change various aspects of the social environment, hence a business has to adapt to the culture of the region in which it is operating.

One must also understand people's prevailing beliefs about their connection with the natural environment, its exploitation and its conservation for the future. Consumers are getting more and more interested in purchasing services that do not harm the environment and conserve it for future generations to come.

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The Economic Environment

The economic environment can be analysed in terms of:

1. the state of the economy,
2. patterns of real income distribution,
3. patterns of saving and debt,
4. expenditure patterns, and,
5. inflationary and deflationary pressures.

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The Economic Environment

The state of the economy include an awareness of whether the general economy is in prosperity, recession, depression or recovery as these states would determine the extent to which our business is likely to prosper under specific situations.

We should also be aware of the business cycle, as every business appears to have cycles of ups and downs over the years.

One should know the growth of the economy in terms of the growth in the gross domestic product (GDP).

For instance, the world GDP growth was estimated to be around 3.1% while the growth rate for China was 7.8% and India was 6.5% in 2012 (Central Intelligence Agency, 2013).

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The Economic Environment

Knowledge of other microeconomic factors like income distribution and purchasing power of the people is also important.

According to the McKinsey Global Institute, the average annual disposable income of households in India will grow from Rs. 113,744 in 2005 to Rs. 318,896 in 2025. Over half of this income will be spent on services like transportation and tourism to domestic and international places.

India's consumption will quadruple in the next 20 years. 80% of the consumption growth will be led by increase in income, 16% will be due to growth in the number of households and 4% will be due to increased rate of saving by Indians.

We can guess that increasing consumption will increase business opportunities and will lead to increasing incomes. By 2025, India will become the firth-largest consumer market in the world behind USA, Japan, China and the UK.

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Contribution of services to GDP of various countries

Country	GDP* in 2011	Services as %age of Country's GDP	Contribution of Services to Country's GDP*
World	52668	68	35551
USA	13226	78	10369
Japan	4604	71	3246
Germany	3049	70	2134
UK	2381	76	1810
France	2241	79	1774
China	4237	42	1767
Italy	1773	73	1296
Canada	1234	70	860
Spain	1184	70	829
India	1323	58	770
Brazil	1126	67	749
Australia	895	69	619
Mexico	957	64	614
South Korea	1056	57	598
Russia	947	62	588

* US$ billion at constant prices . Source: Government of India (2013)

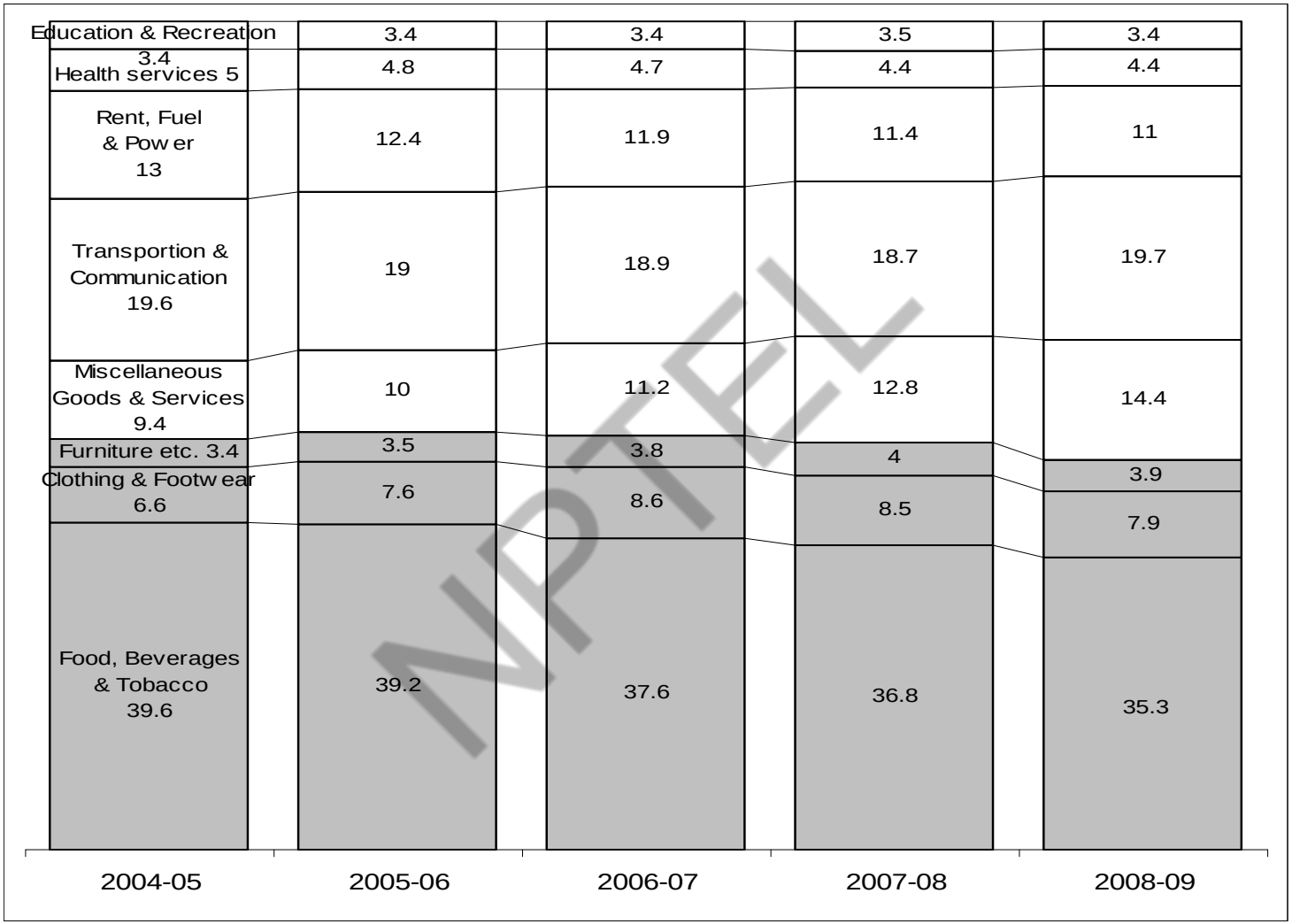
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Contribution of services to India's GDP in 2011-12

Service	Share of GDP 2011-12 (%)	Growth YoY
Trade, hotels and restaurants	**18**	**6.2**
Trade	16.5	6.5
Hotels & restaurants	1.5	2.8
Transport. Storage & communication	**7.1**	**8.4**
Railways	0.7	7.5
Transport by other means	5.4	8.6
Storage	0.1	9.4
Communication	0.9	8.3
Financing, insurance, real estate, & business services	**16.6**	**11.7**
Banking & insurance	5.7	13.2
Real estate, ownership of dwellings & business services	10.8	10.3
Community, social & personal services	**14**	**6**
Public administration & defence	6.1	5.4
Other services	7.9	6.5
Construction	**8.2**	**5.6**
Total services	**55.7**	**8.2**
Total services (incl. Construction)	**63.9**	**7.9**
Total GDP	**100**	**6.2**

Source: Government of India (2013) The growth of the services sector is closely linked to the FDI inflows into this sector and the role of transnational firms.

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Private expenditure on Goods and Services in India

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Return on Capital Employed (ROCE %) of various Service Industries in India from 2005 to 2008

Year	**2005**	**2006**	**2007**	**2008**
Growth Rate (%)	6.2	8.4	9.2	9.0
Computer-SW Large	40.2	39.2	40.4	35.0
Hotels-Medium	14.5	23.5	29.9	25.8
Ship Breaking / Repair	35.4	18.4	26.7	24.6
Gas Distribution	25.8	28.5	20.1	23.9
Hotels-Large	9.3	14.9	22.3	20.5
Couriers	24.3	25.0	28.0	19.3
Hotels-Resorts	9.4	16.1	17.3	19.2
ITES / BPO services	22.6	19.8	22.7	19.1
Securities / Commodity Trading	29.3	12.9	24.2	18.6
LNG storage & distribution	18.1	14.9	18.0	17.2
Travel Agencies	20.9	17.5	20.1	17.1
Transport logistics services	22.7	20.2	17.8	15.4
Computer-Education	8.8	10.4	13.5	15.0
Banks-Pvt Sector RONW (%)	12.6	13.6	14.6	14.2
Trading-Large	18.1	10.1	5.5	14.0
Financial Services - Medium	11.5	11.8	11.3	13.8
Shipping-Large	21.6	15.9	12.0	13.6
Hotels-Small	-	11.1	11.7	13.6
Tourism	16.5	16.0	16.4	13.5
Computer-Swf M/S	10.9	14.4	14.8	12.8

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Year	2005	2006	2007	2008
Financial Services - Investment/Others	11.2	12.9	13.4	12.7
Financial Services - Lease/Divers	15.6	15.1	10.9	12.6
Telecommunication Service	8.3	9.4	11.0	10.6
Housing Finance - Large	9.0	8.4	9.4	10.4
Financial Services - Institutional Term Lending	8.0	7.5	8.9	10.1
Retailing	17.1	14.9	10.3	10.0
Business consultancy	5.7	9.4	13.9	9.7
Financial services - Equipment Leasing & Maintenance	8.0	8.0	61.3	8.6
Housing finance - Medium/Small	6.9	7.9	8.1	8.6
Hospital / Medical Service	7.7	9.0	7.5	8.4
Trading - Medium / Small	6.3	7.7	8.6	7.6
Shipping - Medium / Small	8.7	10.8	5.8	7.3
Road Transport	5.4	6.1	7.3	7.1
Exhibition of films	4.9	7.2	9.6	6.2
Auto finance services	3.8	2.7	3.1	3.0
Animation content provider	0.6	-0.2	-2.7	2.8
Asset financing services	-7.2	4.3	4.8	2.6
InfoTech / Database services	-	1.5	4.6	2.3
Media-content	7.4	8.7	5.7	1.2
Media-broadcasting	4.3	4.9	3.1	-1.1
Production & distribution of films	3.1	3.5	2.9	-2.5
Recreational services	8.2	8.2	8.4	-11.0
Air transport services	1.5	-8.8	-8.1	-23.2

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Percentage of affluent Indians purchasing various services

Activities undertaken at least once in 2-3 months	Percentage of affluent people
Fine dining in specialty restaurant (not 5 star)	84
Shopping malls	81
Fine dining in 5 star hotels	74
Beauty salons (women)	59
Socialite parties	56
Health and fitness centre	47
Live theatre, drama or play	42
Health and grooming spas (men)	33
Kitty parties (women)	33
Museum or art gallery	23
Auctions	22

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Lesson 7 Understanding the Macroenvironment - III

The Technological Environment

and

Understanding the Micro Environment - I

Understanding our Company

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The Technological Environment

This is the fourth and final strand of the environment that has to be analysed and understood in order to be in tune with the latest developments in the world.

Technology has enabled quick transfer of information across the world through the Internet.

High tech products have enabled suppliers to satisfy customer needs with lightning fast speed and accuracy. Now, fast food restaurants are actually high-tech factories churning out high-quality food in the least possible time.

Services are taking increasing help of high technology, be it time and labour saving accurate automatic teller machines, vacuum cleaners or the room card with which the guest can access his room and other services throughout the hotel.

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The Technological Environment

We must understand how technology is affecting the purchase and consumption of services for consumers.

Companies that wish to be on the forefront of efficiency keep watching, documenting and disseminating advances in technology that they can use to deliver customer satisfaction or customer delight.

Ginger Hotels observed that educated, time starved customers are looking for value for money and like to handle high-technology products and services. Accordingly, they started the hotel service where customers can help themselves around the hotel including checking into their rooms, operating lifts, making tea, etc.

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Monitoring the Macro-environment

Explosive population growth (social) leads to more resource depletion (economic) and pollution which leads consumers to ask more laws (politico-legal) stimulating new (technological) solutions, which, if affordable, can alter attitudes and behaviour (social).

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Understanding our Company

In order to launch a service business and conduct it successfully, we have to understand the core competencies and competitive advantage of our business.

Our company must have the requisite resources and the capability to process customer possessions in order to produce the intended outputs and experience for the customer.

We have to understand the internal strengths and weaknesses of our company.

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Understanding our Company

For example, if we run a cinema theatre, we must be able to source motion picture films from the distributors and have a theatre and a projector to screen the picture as per pre-communicated schedule. We must have a facility to sell tickets to our customers. We must also have eateries and washrooms for the convenience of our customers. Our servicescape must have a pleasant ambience that can delight or at least satisfy our customers while giving them the right experience that they can remember for some time and discuss with others.

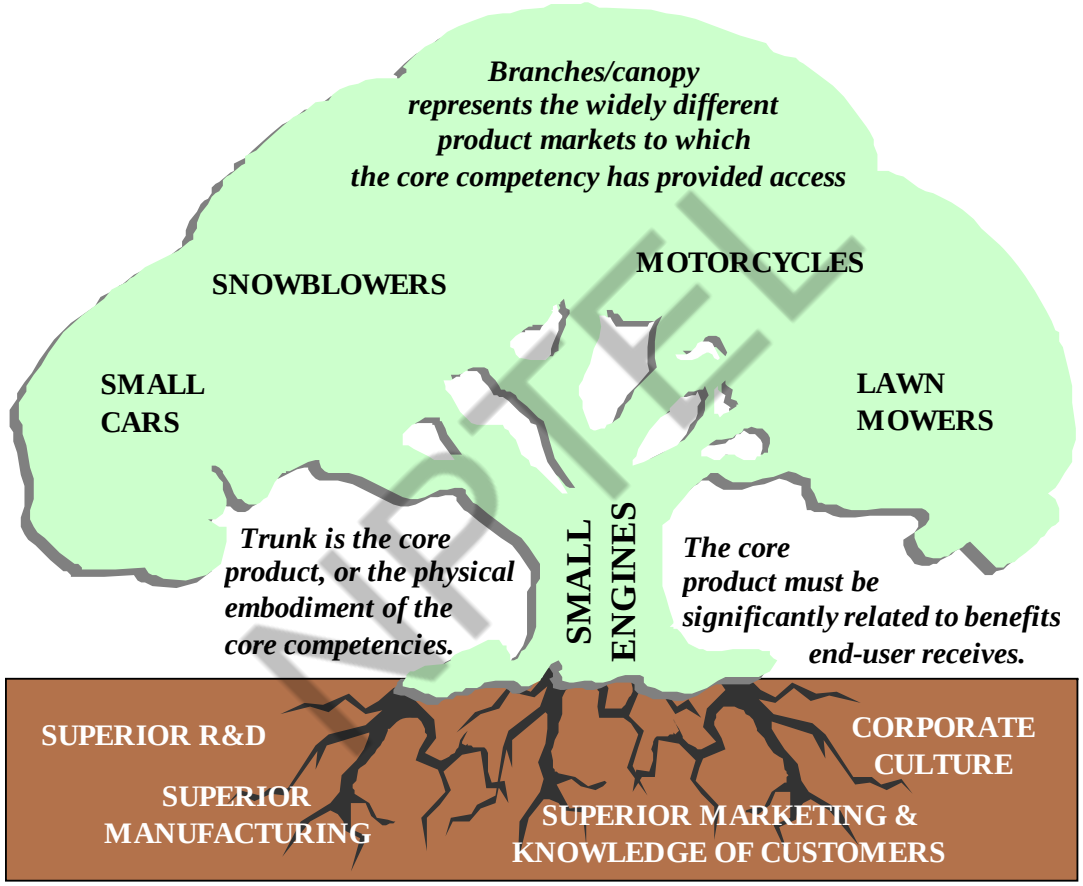
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Core Competencies

We have to understand the core competencies of our company.

Core competency is a concept in management theory introduced by C. K. Prahalad and Gary Hamel in 1990. It can be defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace".

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Roots are underlying skills and capabilities that represent core competencies.

Mohr, Sengupta, & Slater, (2010).

Competitive Advantage

Competitive advantage is a business concept describing attributes that allow an organization to outperform its competitors.

When a core competency posses following four characteristics it is said to posses competitive advantage over its competitors:

- Valuable
- Rare
- Inimitable
- Non-substitutable

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