SERVICES MARKETING
A Practical Approach

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Lesson 8 Understanding the Micro Environment - II

Understanding our Customers

Understanding our Competitors

Understanding our Collaborators

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Understanding our Customers

Understanding Customer Needs

- What functional needs does the service fulfil?
- What jobs does it do to make consumers' life easier or better?
- What meaning does the service bring to the consumer' lives?
- In what rituals or traditions does the service play an important role?
- How does it help build the identities of consumers?
- How does the service connect consumers to others in the social world?
- How does it help consumers fulfil their important social roles?
- How does the service make consumers feel?
- What emotions are associated with the purchase and consumption of the service?

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Types of Services Provided to Satisfy Fundamental Human Needs

Need	Types of Services
Subsistence	Food Services and Drinking Places Retail services Marketing services like Advertising, Trade Shows, Public Relations, etc. Employment Services
Protection	Warehousing and storage services Finance, Accounting, Tax preparation, Book-keeping, Payroll and Insurance Investigation and Security Services Repair and Maintenance services Personal Care and Personal services including Death care services Real Estate and Accommodation services Rental and Leasing services Parking Lots and Garage services Services to Buildings and Dwellings including Waste Management and Remediation Services Health Care, including Dental and support services Social and Domestic Assistance Dry-cleaning and Laundry Services Pet Care and Veterinary Services Management of Companies and Enterprises Administrative, Business and Facilities Support Services Civic services

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Needs	Types of Services
Affection	Photographic and Photo-finishing services Dating, Marriage and Gifting services
Understanding	Management, Environmental, Scientific and Technical Consulting services Translation and Interpretation services Education Services
Participation	Passenger and goods transportation by various modes including scenic and sightseeing transportation and support activities like travel arrangement, reservation, etc. Telecommunication services
Leisure	Motion Picture and Video Exhibitions, Record production and Distribution Museums, Historical Sites, Amusement Parks and Arcades and Performing Arts, Spectator Sports, Gambling and other Recreation facilities
Creation	Publishing in print and electronic mediums including broadcasting services Architecture, Engineering, Interior Design, Industrial design, Landscape design, Surveying, Building Inspection, Drafting and associated services Graphic design services Scientific Research and Development Services
Identity	Religious services Association services
Freedom	Legal services Grant-making services

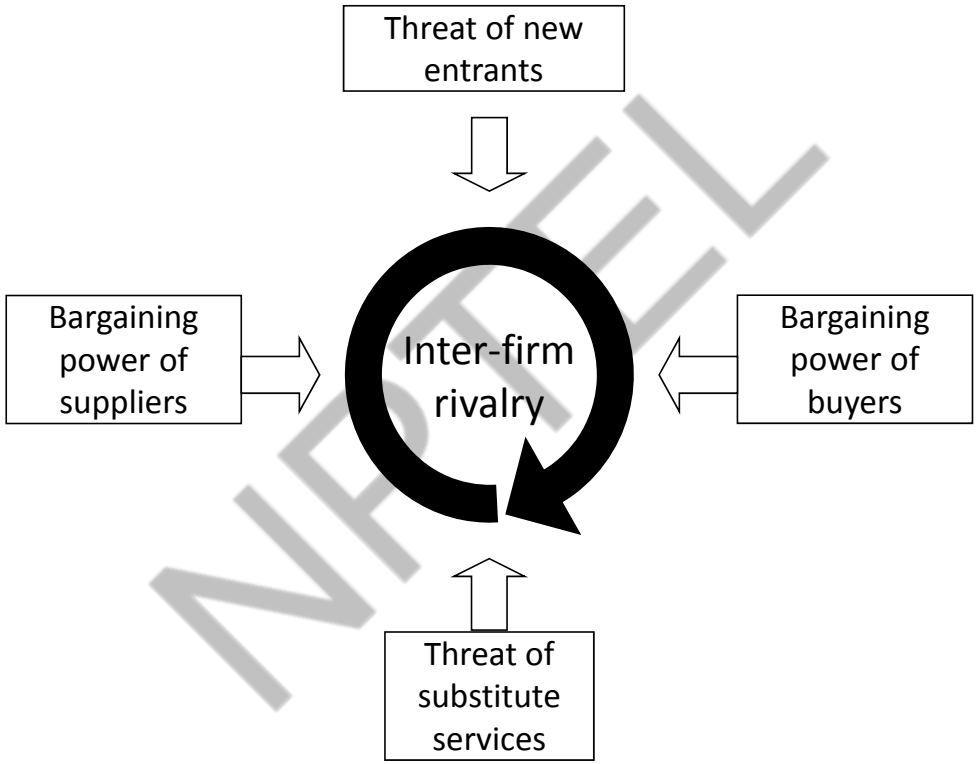
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Analysing Customers' Decision Making Process

- **Problem Recognition**: When, where and how consumer's needs arise, i.e. the situational, social or marketing stimulus that makes a consumer realise that he/she has a problem or need that has to be fulfilled
- **Information Search**: Understanding the sources of information that consumer use to find alternatives to fulfilling their needs. These sources include media (television, newspapers, billboards, celebrities, salesperson), friends, Internet, family, retailers and opinion leaders. Which social groups are the reference for a consumer for a particular purchase?
- **Evaluation of Alternatives**: Understanding the rational and irrational attributes and their respective importance that consumers use to evaluate alternative options to satisfy their need. While some consumers may give more importance to service quality, others may give more importance to price.
- **Purchase Decision**: Understanding where does the consumer go to make the purchase. What situations inside or outside the servicescape (long queues, no seating) can encourage or dissuade the consumer to make the purchase elsewhere.
- **Post Purchase Evaluation**: Understanding how the consumer assesses the service after consuming it. How satisfied/dissatisfied are they after consuming the service? What regrets or doubts does the consumer have regarding the consumption experience and outcome? Does the consumer use the service or wish to transfer it in another person's favour.

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Understanding our Competitors



The 5 Forces that shape Competition

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The 5 Forces that shape Competition

We may think that our company will have direct competition that we have to adjust to. For instance, if our company is in fast food business, we may think that our competitors are McDonald's or Pizza Hut or KFC.

However, Michael Porter wrote in 2008 that any company faces five competitive forces as illustrated in the previous slide.

Direct competition comes from established rivals.

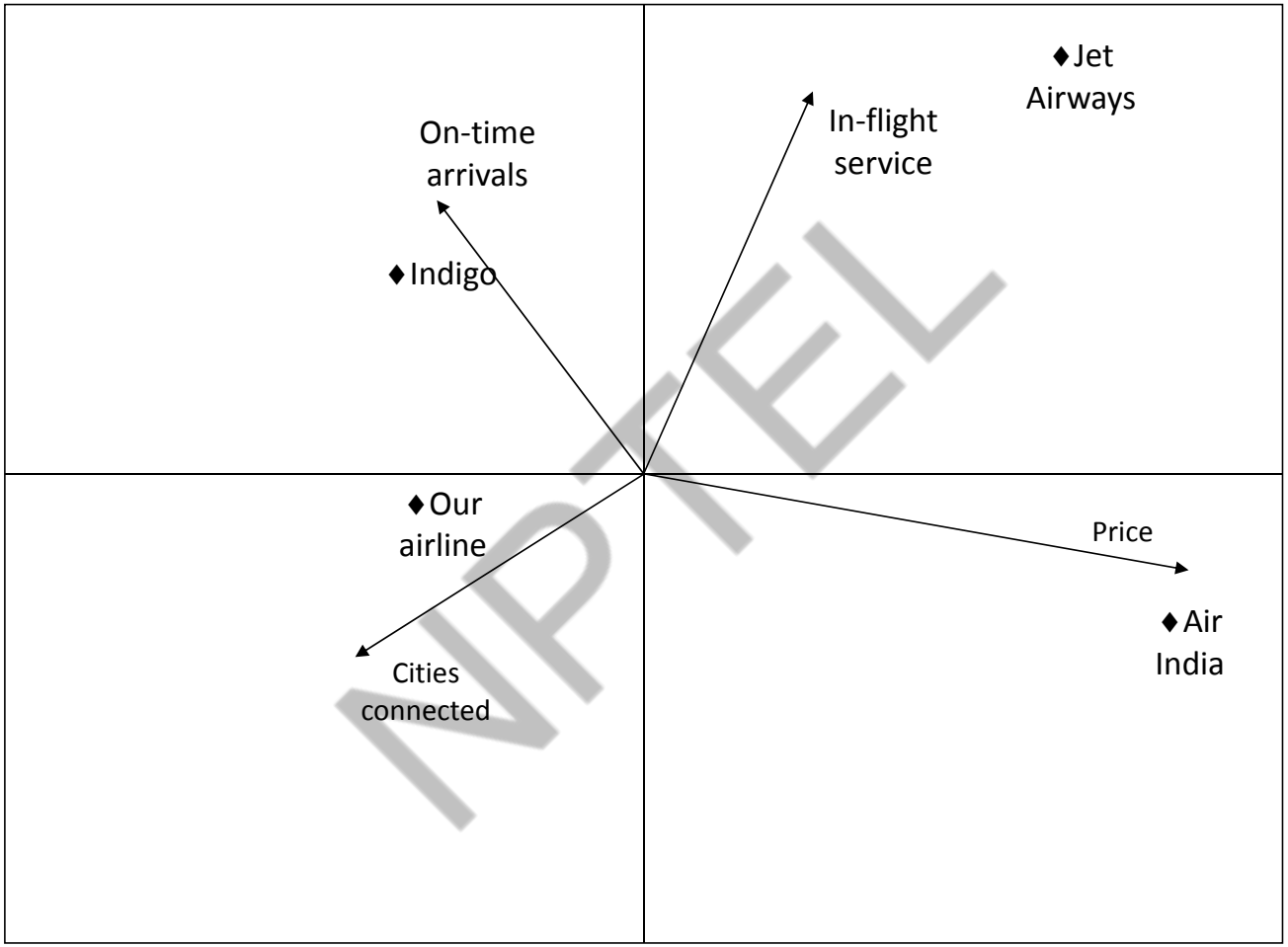
Customers can be a source of competitive force as they search and shop for the best deals available and drive down prices.

We cannot provide services without the raw materials provided by our suppliers. Suppliers might wield enough power to raise the prices of equipment and materials. Our labour force, the supplier of manual labour, which is very important in a service industry, may be unionised and negotiate for higher wages from time to time.

It might be easy to start a new business in the fast-food industry, so, we can receive competition from new entrants.

Lastly, we get competition from substitute services, for instance, a formidable competition to a fast-food business is home food itself!

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Perceptual Map showing the Positioning of Airlines

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Understanding our Collaborators

Our business collaborators include our suppliers, franchisees, distributors, promoters, advertisers, key influencers, media, financial partners, and others who complement our business.

If we provide training services, a firm providing placement services can be our complementer.

Both the firms can learn from each other in order to develop participants for placement in companies that need their skill sets.

We must understand how each collaborator benefits from the relationship that they have with us and what we can expect from them in return.

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Lesson 9 Services Marketing Process

Marketing Process for Services

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Marketing Process for Services

The 7Ps, i.e., product, process, people, place, physical evidence, promotion and price are collectively called the marketing mix for services.

The marketing mix has to be designed so that they are consistent with each other and provide an image consistent with the positioning of our service in the minds of the customer.

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Services Marketing Process

1	**Identifying value**	Context analysis	Customer analysis	Company analysis	Competitor analysis	Collaborator analysis
2	**Identifying customers**	Segmenting	Targeting	Positioning		
3	**Creating value**	Product	Process			
4	**Delivering value**	People	Place	Physical evidence		
5	**Communicating value**	Promotion				
6	**Capturing value**	Price				
7	**Sustaining value**	New Service Development	Customer Retention	Branding		

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Lesson 10 Exploring Marketing Opportunities - I

SWOT Analysis

TOWS Matrix

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SWOT Analysis

The analysis of the macro-environment tells us about the opportunities and threats present in the environment for our company. Analysis of the micro-environment tells us about the strengths and weaknesses of our company.

While opportunities and threats are external to a company, strengths and weaknesses are internal to the company.

We can then collate this information into a matrix of strengths, weaknesses, opportunities and threats, called the SWOT matrix. An example of SWOT matrix for Airtel, a telecom service provider in India is discussed next.

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SWOT Analysis

SWOT Matrix of Airtel Telecom company

Strengths	**Weaknesses**
S1. It has the largest customer base of 95 million (in 2009-10) in India. S2. It has the infrastructure to provide telecom and broadband services. S3. It has strategic alliance with handset manufacturers like Sony-Ericson, Nokia and S-Tel. S4. It is operating in all the 23 telecom circles in India. S5. It has good corporate structure and is a visionary leader. S6. It has the advantages of being an early entrant in the telecom service provider industry.	W1. It had less expertise in its early days of operation, so it had to outsource many of its operations. W2. The company shares the telecom towers with many other companies and remains dependent on them. W3. Some human resource issues are hurting its international image.
Opportunities	**Threats**
O1. There is a lot of opportunity as the mobile telecom penetration is still much less that 100%	T1. There are threats from some of its competitors like Vodafone.

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TOWS Analysis

TOWS Matrix for Airtel Telecom company

	Opportunities	**Threats**
Strength	**S1-O1** The company can grow using intensive and integrative growth strategies. **S2-O1** The company can use existing infrastructure or set up new infrastructure for growth. **S3-O1** The company can go for strategic alliances with smaller service providers also in order to grow in the marketplace (integrative growth). It can also form alliances with foreign service providers to establish a presence in foreign lands like Africa. **S4-O1** It can increase its market share all over the country by offering high quality services at affordable prices, thereby increasing market share through intensive growth. **S5-O1** The company can take advantage of its corporate structure to recruit more people for ensuring adequate growth in the market place. **S6-O1** It can take advantage of its experience and learning and provide services at rates affordable to most citizens of India.	**S1-T1** It can provide better services than the competition by providing enhanced service quality. **S2-T1** Same as S1-T1 **S3-T1** It can learn from its strategic alliances and provide better services than its competitor. **S4-T1** Same as S1-T1 **S5-T1** Same as S1-T1 **S6-T1** Same as S1-T1
Weakness	**W1-O1** It must monitor its partners for quality and value gain. The company must set up its own operations if the partners under-perform. **W2-O1** The company must proactively manage its infrastructure alliances as win-win relationships to be able to provide acceptable services at affordable prices. **W3-O1** It must re-look at its human resource policies and provide an organisation climate that can lead to high employee satisfaction and citizenship behaviour.	**W1-T1** The company has to cement strong relationships with its partners so that they can together perform better that the competition. **W2-T1** Same as W1-T1 **W3-T1** Human resources issues can make employees of the company switch to competitors. Hence, the company should have good human resource policies so that they can retain their employees and keep them well trained for higher productivity which can keep them satisfied with their jobs and career.

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Formulating Marketing Strategy for Sagar Ratna – A Restaurant Chain

Strengths:

a. The restaurant is very popular with its North and South Indian dishes.
b. It has good presence in Tier 1 and Tier 2 cities.
c. Customers perceive Sagar Ratna to be having high brand value.
d. The food and ambience provided by Sagar Ratna is of superior quality.

Weaknesses:

a. There is no marketing or advertising effort from Sagar Ratna to lure new customers.
b. The restaurants are only located in middle level markets and not present in shopping malls and high end markets.

Opportunities:

a. Middle class households are increasing in the population.
b. Disposable income of Indians is increasing.

Threats:

a. There is threat from other restaurants
b. Multinational brands like McDonalds, Pizza Hut, KFC, Yo China, etc. are flourishing.

The TOWS matrix:

Strengths & Opportunities (SO):

1. Increase restaurants in Shopping Malls
2. Advertise superior food and ambience quality to attract customers

Weaknesses & Opportunities (WO):

1. Same as SO

Strengths and Threats (ST):

1. Increase number of outlets and advertise heavily

Weaknesses and Threats (WT):

1. Same as ST

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Lesson 11 Exploring Marketing Opportunities - II

Scouting for Opportunity

Opportunity identification

Opportunity Evaluation

Services Marketing Opportunities in India

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Scouting for Opportunity

Let us now discuss how to explore for services marketing opportunities. Take the case of Sushil. He has been working as a manager of the service department of an automobile dealer for 5 years now. He had been a mechanic in this department earlier. He saw a possible opportunity. He told his sister that he finds more and more automobiles with hybrid fuel-electric engines coming to his workshop.

It has been estimated that 30% to 40% of automotive sales would be of hybrid variety three years from now. Recently an automotive giant, Mahindra & Mahindra, bought the Bangalore based electric car manufacturer, Reva. The circuit and systems in a hybrid vehicle are different from a non-hybrid one and most mechanics currently do not know the technology well. Sushil thought he could launch a car service firm called ‘Hybrid Car Service Centre’.

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Scouting for Opportunity

Sushil found a new opportunity. Where can we find one? Some places to look for are given below:

Read industry ‘trend reports’ which disclose new discoveries, innovations and trends in industry. Lot of advanced research is being carried out in the Human Genome Project, biotechnology, nano-technology, solar cells, food and nutrition, etc. which can throw up opportunity for providing new technology driven services.

New regulation can bring up several opportunities. Currently the 3G spectrum is being sold by government of India and several telecom companies have purchased bandwidth in this spectrum.

Failure of civic authorities in catering to the expectation of residents can be one area of opportunity. The disability of municipalities to provide adequate water and electricity has led to the launch of companies that distribute water and diesel based electricity generation services. Private companies are providing waste management services for collection and disposal of waste.

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Scouting for Opportunity

People's tastes are changing the world over. With the popularisation of personal computers and internet, more and more people are demanding home computers, Internet and associated services. Lot of companies are taking advantage of Carbon Credit consultancy opportunity opened up in the wake of global awareness of climate change.

People are time starved and are seeking lot of small conveniences like child care, pet care, car care, grocery delivery, domestic services, etc.

Large businesses may be unable to take interest in small initiatives like security or janitorial services that are too small to be profitable for them. Smaller service providers can launch those services.

Communicate with sales persons of existing businesses. Talk to the customers to find out what modifications and improvements they want from your current services. This could be an opportunity that we could exploit.

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Opportunity Identification

- the business venture creates significant value for customers by solving a significant problem or meeting a significant need for which customers are willing to pay a premium
- offers significant profit potential for the shareholders which is enough to meet their risk and reward potential
- presents a good fit with the capabilities, skills and experience of the founder and the management team
- the opportunity would prevail over a long period of time unlike a short-term fad, and,
- financiers are willing to finance the business venture

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Opportunity Evaluation

To be a successful business case, an opportunity must be evaluated in terms of a. **marketing feasibility**, b. **financial feasibility** and c. **technical feasibility**:

A. Checking Marketing Feasibility

1. Context Analysis

The following questions must be answered to ascertain the feasibility of marketing the service:

- What is the state of the economy (prosperity, declining, recession, recovering) of the region we are going to serve?
- What is the target population that will be served by our business?
- What is the demand for our service in the market?
- What is the rate of growth of the service in the market?
- What is the return on capital employed (ROCE) for the industry of which our company will be a part?
- Is the political climate appropriate for launching and operating our service? What the risks involved?
- What is the relevant business legislation that we have to abide by?
- Will the culture of the society in which we will operate, welcome and adopt the service?

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Opportunity Evaluation

2. Customer analysis

- Who are the possible customers? Can we name and describe them? If we cannot, our business is too theoretical. Have a few customers expressed their willingness to purchase our service once it is launched?
- How will the service benefit customers? Does it solve a significant problem or unmet need? Are customers willing to purchase the service? Are customers willing to pay for satisfying this need?
- How many people stand to benefit, i.e., what is the estimated market size? Is the market stable or growing and at what rate? What portion of the market will the business hope to serve in the next few years?

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Opportunity Evaluation

3. Competitive analysis (5 forces analysis)

- Who are the industry rivals? What are their strengths and weaknesses? How are they supposed to react to our new venture?
- What alternatives or substitutes are available?
- How can buyers wield pressure on the business?
- How can suppliers wield pressure on the business?
- How easy is it for new firms to come into the market or for existing firms to start a similar service?
- How long will the market last in face of competition?

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Opportunity Evaluation

B. Checking Technical Feasibility

1. Company analysis

- What infrastructure (i.e. buildings, plant, machinery, equipment and software) would have to be installed? Are these easily available? If not, how do we plan to procure them?
- What management skills would be required? How can those be acquired?
- What are the qualifications of people required for delivering the service? How can they be recruited and trained?

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Opportunity Evaluation

2. Collaborator analysis

- Who would be our partners, if any?
- Who would be our suppliers?
- Who would be our communication partners?
- Who would be our distribution partners / agents?
- Who would be our lenders and bankers?

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Opportunity Evaluation

C. Checking Economic Feasibility

The following questions must be answered to ascertain the economic feasibility of the service business:

- What would be the year-wise sales forecast for the next three years?
- What is the elasticity of demand for our services? How would we match demand and supply during the peak and the off-peak periods?
- What would be the fixed and variable costs of our business?
- What are the constraints on pricing, if any?
- What would be the break-even sales volume?
- What would be the estimated return on investment? Is it higher than the current bank interest rate?

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Services Marketing Opportunities in India

Banking Services

In India, the competitive scenario changed after liberalisation policies were initiated in 1991. It forced public sector banks to focus on providing satisfaction to customers. The banking organisations have to become market oriented in order to provide services as per the needs of customers.

Banks have 3 product lines: i. deposits, ii. loans and advances, and, iii. auxiliary services. Auxiliary services consist of payment of cheques, bills of exchange, drafts, subscriptions, traveler cheques, foreign exchange, custodian services, etc.

The research centre of a bank undertakes the activities related to modification of the existing products to increase acceptance based on customer perceptions, buying behaviour, the likes and dislikes of customers and customer suggestions. A team of product designing experts work to produce new products. Products that fail to meet the expectations of customers are deleted from the product line (Rao 2007).

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Services Marketing Opportunities in India

Retail Services

The Indian retail industry, traditionally dominated by family-run kirana stores, has faced a tremendous metamorphosis both in format and structure. The rise of the double income family resulting in increased purchasing power, higher mobility, availability of credit cards, changed lifestyle and scarcity of time necessitate the need for convenience shopping (Jauhari & Dutta, 2009).

Organized retailing in India has been a predominantly urban phenomenon, however, this phenomenon is getting into Indian towns also.

Any retail outlet chain which is professionally managed, has accounting transparency and organized supply chain management with centralized quality control and sourcing can be termed as organized retailing (Vishvas and Murugaiah, 2006).

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Services Marketing Opportunities in India

Road Transportation Services

With the growth of road infrastructure in India including the Golden Quadrilateral, the road transportation services are also growing. Taxi services are growing between cities are around 500 kilometers apart. Similarly bus services are also growing within cities as well as connecting cities and towns. The service product mix of Andhra Pradesh State Road Transport Corporation (APSRTC) (Rao 2007) is depicted in the next slide.

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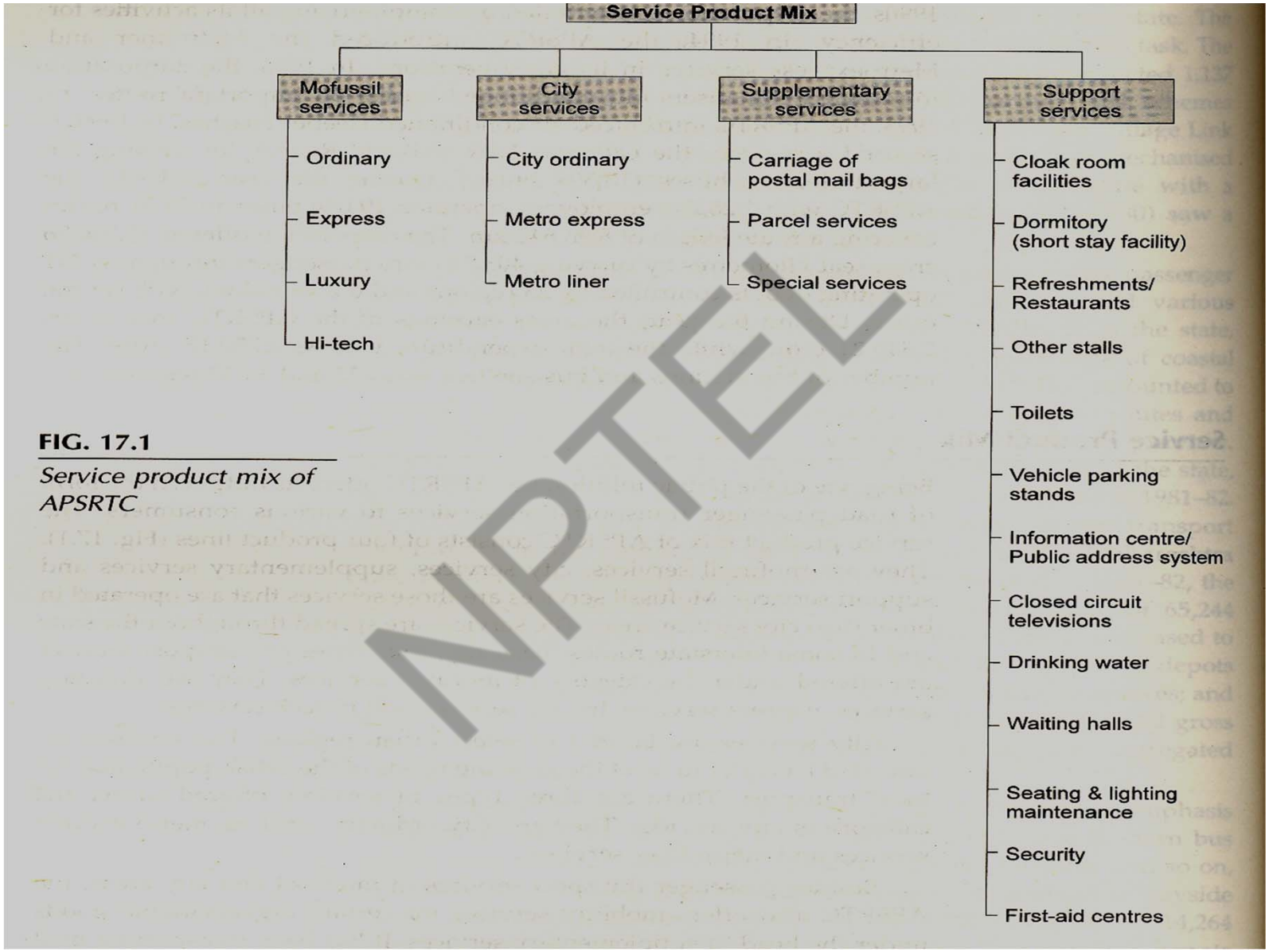


FIG. 17.1

Service product mix of APSRTC

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Services Marketing Opportunities in India

Insurance Services

Insurance services can be 4 types: i. Personal insurance, ii. Property insurance, iii. Liability insurance, and, iv. Fidelity insurance. Different kinds of insurance available in India is depicted in the next slide (Rao 2007).

Personal insurance covers life.

Property insurance covers risks related to the property of the insurer.

Liability insurance covers risks of accidental death, disability, loss by fires, flood, earthquakes, and such risks where losses are the results of natural or physical causes.

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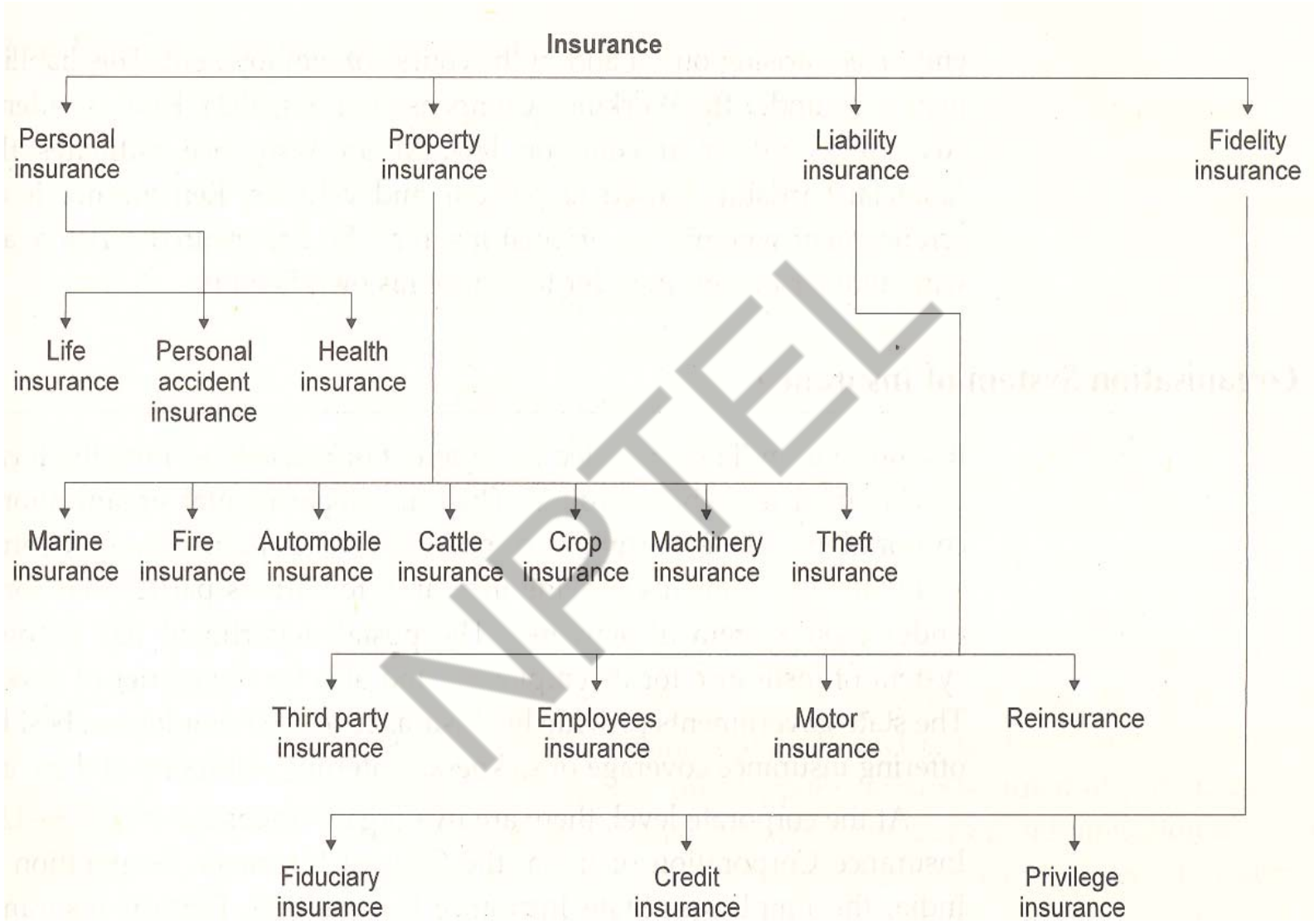
Services Marketing Opportunities in India

Fidelity insurance protects organizations from loss of money, securities, or inventory resulting from crime. Common Fidelity claims allege employee dishonesty, embezzlement, forgery, robbery, safe burglary, computer fraud, wire transfer fraud, counterfeiting, and other criminal acts.

Fiduciary Liability Insurance pays, on behalf of the insured, legal liability arising from claims for alleged failure to prudently act within the meaning of the pension reform act of a country.

Credit insurance is a type of life insurance policy purchased by a borrower that pays off one or more existing debts in the event of a death, disability, or in rare cases, unemployment.

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Kinds of insurance (Rao, 2007)

Services Marketing Opportunities in India

Hospitality Services

The marketing of hospitality services includes designing the basic service package (product), the physical environment (servicescape), pricing, internal marketing, promotion and interactive marketing during the interactions between the service provider and the consumer (Rao, 2007).

The segmentation of the market is largely based on price (or affordability) and also on lifestyle variables.

Internal marketing is of some significance in the hospitality industry. Internal marketing refers to marketing of the service product to the employees of the organisation. It is said that if you want satisfied customers, you must keep your employees satisfied and well trained. In other words, happy employees can keep customers happy during the interactions with the latter. These interactions are called the “moments of truth”.

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Services Marketing Opportunities in India

Education Services

Marketing of education services has assumed importance in recent years in India. The fast changing economic and business scenario is reflected in the education sector as well. The entry of corporate organisations at all levels from the elementary through highly advanced specialised level has created a competitive environment in India (Rao, 2007).

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Services Marketing Opportunities in India

Tourism Services

The developed as well as developing countries are making vigorous efforts to reshape the tourism industry. The main reason behind the attitudinal change in the policy makers is due to this industry's capacity to generate foreign exchange.

Countries such as Austria, Belgium, Canada, France, Italy, Japan, Singapore, Spain, Switzerland, UK and USA have been successful in contributing handsome dividends to their exchequer through the tourism industry (Rao, 2007).

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Lesson 12 Segmenting the Market, Targeting and Positioning

Bases for Segmentation

Segmentation in Practice

Targeting a Profitable Segment

Positioning our Service

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Bases for Segmentation

Having discussed the services marketing opportunities in India, we now turn our attention to segmenting, targeting and positioning our service business in the market.

Behavioural Bases for Segmentation

Need	strong	moderate	light	none		
Occasions	regular	special				
Benefits	quality	service	economy	speed		
User status	nonuser	ex-user	potential user	first-time user	regular user	
Usage rate	light	medium	heavy			
Loyalty status	switcher	shift loyalty from one brand to another	split between 2 or 3 brands	hard core loyal		
Readiness stage	unaware	aware	informed	interested	desirous	intending to buy
Attitude toward the service	enthusiastic	positive	indifferent	negative	hostile	

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Demographic Bases for Segmentation

Age	**Family size**	**Income**	**Gender**
Under 6 years	young single;		male
6-11 years	young married no children;		female
12-19 years	young married youngest child under 6;		
20-34 years	young married youngest child 6 or over;		
35-49 years	older married with children;		
50-60 years	older married no children under 18;		
60 + years	older single;		
	other		

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The new SEC system, 2011

Sl. No.	Items owned/have access at home	Tick
1	Electricity connection	√
2	Ceiling fan	√
3	LPG stove	√
4	Two wheeler	√
5	Colour TV	√
6	Refrigerator	√
7	Washing machine	
8	Personal computer/Laptop	
9	Car/Jeep/Van	√
10	Air conditioner	
11	Agricultural land	√
	Total nos.	8

Market Research Society of India, 2011

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The new SEC system, 2011

No. of Durables (TRANSFER FROM Q1)	Chief Earner: Education (Q2)						
	Illiterate	Literate but no formal schooling/ School- Upto 4 years	School- 5 to 9 years	SSC/ HSC	Some College (incl a Diploma) but not Grad	Graduate/ Post Graduate: General	Graduate/ Post Graduate: Professional
	1	2	3	4	5	6	7
None	E3	E2	E2	E2	E2	E1	D2
1	E2	E1	E1	E1	D2	D2	D2
2	E1	E1	D2	D2	D1	D1	D1
3	D2	D2	D1	D1	C2	C2	C2
4	D1	C2	C2	C1	C1	B2	B2
5	C2	C1	C1	B2	B1	B1	B1
6	C1	B2	B2	B1	A3	A3	A3
7	C1	B1	B1	A3	A3	A2	A2
8	B1	A3	A3	A3	A2	A2	A2
9 +	B1	A3	A3	A2	A2	A1	A1

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Market Research Society of India, 2011

Psychographic Bases for Segmentation

Lifestyle	culture-oriented	Sports-oriented	outdoor-oriented				
Personality	compulsive	gregarious	authoritarian	ambitious			
Media habits	which newspapers	which magazines	which television	which radio	which online	which events	which billboards

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Segmentation in Practice

•How does the respondent qualify in each of the behavioural bases of segmentation as given in Table 7-1 above? The responses would help in establishing why and how people would like to use the service.
•What kind of price customers would be willing to pay for the service? This information can be used to ascertain the profitability of each segment.
•What are the demographic bases of the respondent as given in Table 7-2, Table 7-3 and Table 7-4, depending whether the population belongs to urban or rural region? This would help in identifying the people who had expressed their behavioural intentions regarding the service through the earlier set of questions.
•What are the psychographic bases of segmentation as given in Table 7-5. This would establish the lifestyle and personality of the people who responded to the earlier set of questions. It would also establish the media habits of people. Marketers can communicate (i.e. advertise, etc.) with the people with help of their lifestyle and personality associations through their preferred media.

The data collected on each of the above question items are then subjected to hierarchical cluster analysis followed by k-means cluster analysis. We can read about these statistical analysis from the books referred below. Then we interpret the values of the means of each of the cluster items to describe the clusters in detail. We are able to find the clusters that need the service strongly or moderately and the proportion of the population that does so. We also find the price that this population is willing to pay for the service.

We can now identify two specific persons who match each of the cluster descriptions and interview them in detail as to their daily life and how the service can benefit them. The data thus collected can throw additional light into the kind of people who make up each of the clusters and help in designing strategies to reach them for delivering our services.

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Targeting a Profitable Segment

- **Measurable:** the size, purchasing power and other characteristics of segments must be measurable
- **Substantial:** The segment must be large and profitable enough to be served
- **Accessible:** The customers in the segment can be effectively reached for communication and delivery of service
- **Differentiable:** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programmes.
- **Actionable:** Effective programmes can be formulated for attracting and serving the segments

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Positioning our Service

Our positioning statement would read like the following:

For the target segment, our brand is the brand of frame of reference that has a point of difference because it has a reason to believe. Suppose we are operating an auto-rickshaw service. Having prepared the perceptual map we may like to provide on-demand service as our point of difference that is supported by reliable fleet management infrastructure. Then, our positioning statements would read as:

For travellers on the move, OnRun is an auto-rickshaw service that picks up the traveller whenever and wherever s/he wants because the service is backed by a reliable fleet management infrastructure.

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Lesson 13 Services Marketing Research

Research Questions

Tools for Marketing Research

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Research Questions

- **Understanding company capabilities**
  - A. What are the capabilities and performance level of our managers and employees?
  - B. What are the current strengths/competitive advantages (in terms of unique resources, target segment, product design, production process and value added in the network) of my company?
  - C. What are the current weaknesses / competitive disadvantages of my company?
- **Identification of the customer segment** (cluster analysis)
  - A. Who are our customers?
  - B. What are their needs?
  - C. How do they currently satisfy their need?
  - D. What are their motivations?
  - E. What are their latent/unmet needs?
  - F. What would be their future needs?
  - G. Will they prefer our new product/service concept over their current way of satisfying their needs?
- **Understanding the marketing environment**
  - A. What are the current trends in the market?
  - B. What is the political, social, cultural and economic situation of the current markets and other markets in which we can operate?
  - C. What laws will govern the sale and use of our offering?

NPTEL

Research Questions

- **Understanding our competitors** (Perceptual mapping using discriminant analysis)
  - A. Who competes with our products (our burgers v/s their burgers), brands (private label v/s McDonalds), industry (fast-food v/s all food and beverages), and need (share of consumer spending)?
  - B. What are their current and future objectives and strategies?
  - C. What are their competitive advantages in terms of their unique resources, target segment, product design, production process and value added in their network?
  - D. What are their competitive disadvantages?
  - E. How are my competitors placed in the perceptual map?
- **Estimating market demand** (market survey)
  - A. How many people are likely to purchase the new offering to satisfy their needs?
  - B. What price are they willing to pay for the offering?
  - C. Will the venture become profitable? What would be the return on investment?
- **Understanding consumer/buyer behaviour** (Data collection techniques including observation, focus groups, behavioural data, experiments, etc.)
  - A. In their family or company, who is likely to initiate the purchase of our offering?
  - B. In their family or company, who is likely to influence the purchase of our offering?
  - C. In their family or company, who is likely to use our offering?
  - D. In their family or company, who is likely to decide to buy our offering?
  - E. In their family or company, who is likely to buy our offering?
  - F. What channels of communication are the initiator, influencer, user, decider, buyer exposed to? (Media habits)
  - G. What is the profile of the above roles? What beliefs, values, attitudes, interests, and opinion do they hold?
  - H. In their family or company, when and where are they likely to decide to buy our offering?
  - I. In their family or company, how are they likely to prefer to receive and pay for our offering?

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Research Questions

- **Taking decisions about our offerings** (Conjoint analysis)
  - A. What new features do customers need to be incorporated in our offering?
  - B. How are customers willing to dispose off our offering?
  - C. What level of after-sales service do our customers need? Are they willing to pay for the same?
  - D. What price are customers willing to pay for our offering?
- **Taking communication decisions**
  - A. How many people are aware of our offering? (Top of mind)
  - B. How many people know about our offering?
  - C. How many people like our offering?
  - D. How many people prefer to purchase our new offering over alternative offerings? (Top of heart)
  - E. How many people have tried our offering?
  - F. What other complementary offerings will people need to purchase along with our offering? (Meta markets)

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Research Questions

- **Taking distribution decisions** (market surveys and location models)
  - A. What are the alternative channels of distributing (like retail formats) our services? How are these changing?
  - B. What is the cheapest and best way to deliver our offering to the customers?
  - C. What would be the best location of our service hubs and servicescapes?
- **Taking pricing decisions** (customer survey, conjoint analysis)
  - A. What is the activity based cost (ABC) of a single unit (café chair, restaurant bed, school seat, bus/train/airline seat-kilometre, labour agency person-hours, etc.) of our service?
  - B. What is the price of similar services in the market?
  - C. What price are people willing to pay for our offering?
  - D. What is the price of alternative products/services that our customers will have to pay to fulfil the need that our service is fulfilling (i.e. what is the value based price of each unit of our service)?

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Research Questions

- **Measuring marketing performance** (customer surveys)
  - A. What is the current return on capital employed (ROCE) in our company?
  - B. How many people have purchased our offering at least once?
  - C. How many people are willing to re-purchase our offering? (Market demand).
  - D. How many people are satisfied with our offering?
  - E. How many people are dissatisfied with our offering? Why are they dissatisfied? (customer complaints)
  - F. How many people are willing to refer our offering to others?
  - G. How many people are willing to purchase our offering even if the price is increased?
- **Managing customer relationships** (customer surveys)
  - A. Which of our customers are profitable?
  - B. Which of our customers are non-profitable? Can they be sold low-cost or higher-priced offerings?
  - C. How can we keep in touch with our profitable customers?
  - D. How can we reward our profitable customers so that they continue to be loyal to our offerings? What kind of rewards appeal to them?
  - E. What kind of guarantee is to be given for our offering?
- **Taking decisions about new offering-markets**
  - A. What new offerings do customers need in existing or new markets?
  - B. What price are they willing to pay for those offerings?
  - C. How are customers willing to use and dispose off the new offerings?
  - D. What level of after-sales service do our customers need? Are they willing to pay for the same?

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Research Objectives and Analysis Tools

Research objective	**Tools for analysis**
Understanding company capabilities	HR documents and interviews
Identification of the customer segment	Cluster analysis
Understanding the marketing environment	PEST analysis
Understanding our competitors	Perceptual mapping
Estimating market demand	Forecasting models
Understanding consumer/buyer behaviour	Analysis of variance
Taking decisions about our offerings	Conjoint analysis
Taking communication decisions	Regression analysis
Taking distribution decisions	Location models
Taking pricing decisions	Conjoint analysis
Measuring marketing performance	Analysis of variance
Managing customer relationships	Analysis of variance
Taking decisions about new offerings	Conjoint analysis

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End

Lesson 14 Understanding Consumer Behaviour

Stages of Service Consumption

Customer Perceived Risks while Purchasing a Service

Actions to Mitigate Customer Perceived Risks and Fear

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Stages of Service Consumption

Customers purchase and consume services in six stages as follows:

1. Awareness of need,
2. Search for information,
3. Evaluation of alternative services,
4. Making the purchase decision,
5. Experiencing the service, and
6. Post-experience evaluation of the service.

You may note that unlike products, customers cannot “return” a service if they are dissatisfied with it. However, they can complain about the service and seek redressal in some form. At that time, service personnel and service managers will have the opportunity to recover the service, which we will discuss in a later lesson. We will discuss the above stages of consumer behaviour next.

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1. Awareness of need

As customers grow older, or even otherwise, customers may need help in performing certain chores. They might need help in handing their finances, transporting themselves from home to their workplace and back, preparing their tiffin for consumption at their workplace, payment of electricity bill at the electricity office, etc. As you know well by now, customers can get the above help in the form of services. Thus customers can become aware of their need from within and seek the help of a service.

At times customers may not have a real need, however, they may become aware of a service and feel like availing the service in order to make their life more hassle-free and save time for leisure of for doing more important work. This phenomenon underlines the use of marketing communications like advertising, promotions, word-of-mouth publicity, service sampling or trial experiences, catalogues and other forms of direct marketing, etc., that we are going to discuss in a later lesson.

Once customers are aware of their need they will start searching for services. We call this stage as the stage of search for alternatives which we will discuss in the next section.

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2. Search for Alternatives

Who can help me with paying my electricity bills or who can deliver cooked food to my office at lunch time? These are some of the questions a customer would be asking to him/herself while searching for alternative service providers. While some customers may begin asking family members and friends, some customers would quickly sit down with his/her copy of the “Yellow pages” that lists various professional services.

How can service professional service firms attract the customer while he/she is at this stage? You must have thought that these firms can advertise and endeavour to bring their name and a description of their service in front of the customers’ eyes. For instance, service firms can advertised their services like tourism or spa facilities in large billboards erected at prominent locations in the city.

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3. Evaluation of Alternatives

In this stage, the customer compares the alternatives that he/she has listed. Needless to say, the customers would perform a cost-benefit analysis of the services. Besides the costs and benefits accruing out a particular service, the customer may worry about the risks associated with each service. Professors Christopher Lovelock, Jochen Wirtz and Jayanta Chatterjee have listed seven types of risks in their book entitled Services Marketing: People Technology and Strategy published in 2010. These risks are listed next:

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Risks Customers perceive while purchasing a service

Type of risk	Explanation	Example of customer concerns
Functional	Unsatisfactory performance outcomes	Will I get what I wanted?
Financial	Monetary loss and unexpected costs	Would my money be stolen if I make a credit card transaction?
Temporal	Wastage of time, delays	How long do I have to wait at the doctor's clinic and what will happen to the household chores?
Physical	Injury to person or possessions	What will happen if I fall sick during the tour?
Psychological	Personal fears and emotions	Is there a chance that the aircraft I am travelling in crashes?
Social	How others think and react	What will my friends say if I buy this cheap service?
Sensory	Unwanted effects of any of the five senses	Will the hotel room be clean enough?

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People who face the above risks would usually do something to assure themselves that their fears are unfounded. Customers can take several actions and service providers can help customers with their actions. This set of customer and service provider actions are listed in the next table.

Customer and Service Provider actions to mitigate customer risk and fear

Customer actions	Service provider actions
Seek information from respected personal sources like friends, family and peers. Rely on a company with good reputation about its credibility	Advertise company credibility Generate good word-of-mouth
Look for guarantees and warrantees	Provide unconditional service guarantees
Visit the service facility to check various aspects of the service	Invite customers to tour the service facility. Keep the service facility sparkling and tidy. Keep the facility safe.
Ask knowledgeable employees about competing services	Inform employees about the value being provided by the service. Train employees in selling skills
Examining tangible cues or other physical evidence	Keep facilities and merchandise sparkling and attractive
Use the Internet to compare service offerings and search for reviews and ratings	Create own comparative website and list competitor's features on the website truthfully

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Evaluating a service can be difficult due to its intangibility and simultaneity. Intangible services may be high on search, experience or credence attributes. What are search, experience or credence attributes and how do those affect service evaluation?

1. Search attributes: Search attributes are features like style, colour, texture, taste, sound etc. Which customers can sample before purchase. For instance, customers can visit a hotel room, or check out the restaurant menu before deciding to purchase the service

2. Experience attributes: When attributes of a service cannot be experienced before a purchase, the customer has to rely on experience attributes. For instance, a customer can see the menu at a restaurant, buy he/she has to taste the food and beverages before making a purchase. Some restaurants are able to provide customers a free dish which they can sample or experience before taking the decision to purchase the services of the restaurant. Many customers would rely on the experience of other people like family members and friends to form an opinion about the service and experience the same.

3. Credence attributes: These attributes of the service cannot be tested even after the consumption of the service. Take the case of hospital surgery. There is no way a patient can know whether the surgery was done properly. In such cases the customer has no choice by to rely on the reputation of the surgeon who has performed the surgery. This makes it imperative for service businesses to enhance the reputation of their business and rely on the word-of-mouth that customers would spread once they have experienced uneventful services from the service provider.

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4. Making the Purchase Decision

As discussed earlier, a customer can make a purchase decision among various alternatives using a cost-benefit comparison. Once he/she has decided to purchase a service, he/she will be ready to experience the service.

5. Experiencing the Service

The service purchased by the customer may be a high touch or a low touch service. High touch services are like hair styling service where the customer has substantial contact with the service provider. On the other hand, low touch service is like the automatic teller machine (ATM) service where there is little contact with service employees.

All services are delivered during the moments of truth, i.e. the moments when a customer comes in contact with service personnel. The customer must be satisfied or delighted by the service personnel during these moments of truth. As discussed elsewhere, service personnel must be able to understand the needs of the customers and be able to meet them promptly if they are to satisfy their customers at the moment of truth.

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6. Post-Experience Evaluation of the Service

Once the service has been experienced, a customer might think about the service he/she received. They would feel satisfied if the service met their expectations, they would feed dissatisfied if the service failed to meet their expectations and they would be delighted if the service exceeded their expectations.

In case customers are dissatisfied with their service they are likely to tell fifteen other people about how dissatisfying the service was. On the other hand if the service was satisfactory or delightful they would tell at least five other people about the service. Once satisfied or delighted, customers may decide to repurchase the service in the future or recommend other people to purchase the service. Moreover, satisfied customers would not mind slight future increases in the price of the service and continue to purchase their services from the same company. Service marketers can seek to strike a relationship with the customers at this stage. They can signify to the customers that they would be providing the best services to the customers in future and request customers to shop from them in future.

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Lesson 15 New Service Development - I

Types of New Services

Reasons for Failure of New Services

Reasons for Success of New Services

Stages in New Service Development

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Ansoff's Matrix indicating Intensive Growth Strategies

Services	Market: Current	Market: New
New	New Service Development	(Diversification)
Current	Increasing market share	Market development

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Types of New Services

- Radical innovations that are new to the world like guaranteed overnight courier delivery by Federal Express
- New services offered to customers having access to competitive products
- New services offered to customers by a company which was not providing those services earlier like Barnes and Noble booksellers offering coffee services
- Service-line extensions like an airline offering additional routes
- Service improvements like augmenting hotel rooms with internet facilities
- Style changes like changing the colour of the servicescape, redesigning the website, logo, etc.

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Reasons for Failure of New Services

As per Robert G. Cooper (2001), Primary reasons for failure of new products and services included :

- no unique benefits offered
- insufficient demand
- unrealistic performance goals like market share, etc. for the new service
- poor fit between the new service and others within the organisation's portfolio
- poor location
- insufficient financial backing
- failure to take the necessary time to develop and introduce the new service

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Reasons for Success of New Services

As per Henard and Szymansky (2001) the primary reasons for success of new services are that the new service:

- meets customer needs, has advantage over the competition, and is technologically sophisticated,
- has dedicated R&D, dedicated human resources and availability of marketing, predevelopment, technological and launch proficiencies in the firm for new service development and commercialisation, and
- enjoys existence of the potential for absorption in the market

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New Service Development System

According to Professor G. L. Shostack (1984), services are intangible, so new service development system should have the following four characteristics:

- It must be objective, not subjective
- It must be precise, not vague
- It must be fact driven, not opinion driven
- It must be methodological, not philosophical

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As services are produced and consumed simultaneously, customers are heavily involved in the production and consumption of services. Customers may be co-producing a service as in a self-service restaurant. Therefore, both employee and customer representatives must be a part of the new service design and development team from the very beginning. For instance, some hotels involve their customers and service personnel, besides architects, managers and other professionals, in the design of their hotel rooms.

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Professor John T. Gourville wrote in 2004 that successful new product / services offer plenty of new benefits while requiring little change in consumer behaviour. As illustrated in the figure below, new offerings like Google became successful as it provided a powerful search engine vehicle requiring no change in customer's way of searching the Internet.

Criteria for success of New Offerings

Change in customer Behaviour	New Benefits Provided: **Few**	**Large**
High	*Sure failures:* DVORAK keyboard	*Long Hauls:* Satellite Radio
Low	*Easy Sells:* McDonald's Vegetarian Menu	*Smash Hits:* Google

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Stages in New Service Development

Professors Zeithaml, Bitner, Gremler and Pandit, have published the stages of new service development from various sources in their book entitled “Services Marketing” in 2008. The stages are depicted in Figure 11.2 below. These stages are discussed in some detail in the following paragraphs.

Front-end planning	1	Business strategy review		
	2	Developing new service strategy		
	3	Idea generation	Screen ideas against new service strategy	Drop
	4	Concept development and evaluation	Test concept with customers and employees	Drop
	5	Developing the business case	Test for Feasibility and profitability	Drop
Implemen-tation	6	Service development and testing	Conduct service prototype test	Drop
	7	Market testing	Test service and mix elements	Drop
	8	Commercialisation		
	9	Post-introduction evaluation		

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Stage 1: Business Strategy Review

At this stage we must review and understand the vision, mission, values and strategic orientation of our company. The vision of transporting goods, i.e., cargo service would be different from the vision of transporting mail, i.e., courier service. In 1997, Michael Treacy and Fred Wiersema have written about three value disciplines that companies must choose from. These include: 1. the operationally excellent firm, which is efficient and delivers services at the lowest cost to the customer, 2. the product/service leader, i.e., offering innovative services under a strong brand, and 3. The customer intimate firm, that excels in customer attention and customer service.

Next, we must understand the strategic orientation that our company has decided to take to excel in the marketplace. A strategy is essentially a means to reaching business goals that our company has decided for itself. Generic strategies are game plans for operating and surviving in the marketplace. Michael Porter has written about three generic strategies in 1980. These are: 1. cost leadership strategy, i.e., becoming the lowest cost provider of services, 2. differentiation strategy, i.e., providing unique set of benefits to the customers which are not offered by our competitors, and 3. focus strategy, i.e., focusing on a niche or narrow market segment and fulfilling the needs of that segment through its service offerings.

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Stage 2: Developing New Service Strategy

We must decide the strategy that our company would like to take to grow in the marketplace and align new service development in that direction. These include 1. intensive growth, 2. integrative growth and 3. diversification.

For intensive growth, the company would strive to increase market share for its current services in the current market or develop and launch new services in existing markets or take current services to new markets. These strategies are depicted in the matrix (see figure below) published by Professor H. I. Ansoff in 1965.

A company can increase its market share by changing the style of operations and enhancing its customer intimacy, for instance. Ordinarily, service businesses choose to grow by taking their current services to new markets, i.e., new countries and cities and adapt the offering to the preferences of the customers in the new market.

		Market	
		Current	**New**
Services	**New**	New Service Development	(Diversification)
	Current	Increasing market share	Market development

Ansoff's Matrix indicating Intensive Growth Strategies

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You may have noticed how McDonald's opened its outlets in various cities in India, one after another. On the other hand, post offices in India started providing fixed deposit services and passport related services in the same markets where they were offering postal services. Similarly, a customs agent may launch courier services in the city where they are located, as an example of growing their business by offering new services in existing markets.

For integrative growth, the company would form joint ventures or alliances with other companies in order to deliver complementary services, such as catering services for airlines. It might also like to acquire other companies or merge with them.

Under the diversification strategy, the company develops and launches new services in new markets. This step is risky as the company does not have prior experience with the new service in the new market. However, once the intensive and integrative modes of growth have been exhausted, a business would have no choice other than to diversify its business into new services in new markets.

Knowledge about the above strategic orientation of our company will help us formulate the new service strategy. We can now initiate the new service development process in alignment with the new service strategy.

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Stage 3: Idea generation

As indicated in Figure 11.2, the third stage of new service development is that of idea generation. This stage requires a formal department to be set up in our company. The activities in this stage would include conducting idea generation exercises like brainstorming and focus group discussion with customers, observing customers in different situations wherein they receive the same benefit through similar or alternative services and learning about the services provided by competitors. The company must also place suggestion boxes and institute suggestion reward schemes to attract suggestions from their employees. Listening to customers is the best way to receive ideas, not only for improvements in the current services offering, but also for entirely new services. The idea must align with the new service strategy; otherwise the idea must be dropped or shelved. It must also undergo preliminary evaluation regarding the potential market for the benefit that customers are willing to receive from the service. We must keep in mind that the quantum of investments starts increasing rapidly from this point onwards for developing each idea. Unless the idea has clear potential, it must be dropped, otherwise the company will face further losses if the idea is allowed to be developed further and is dropped at a later stage due to lack of feasibility.

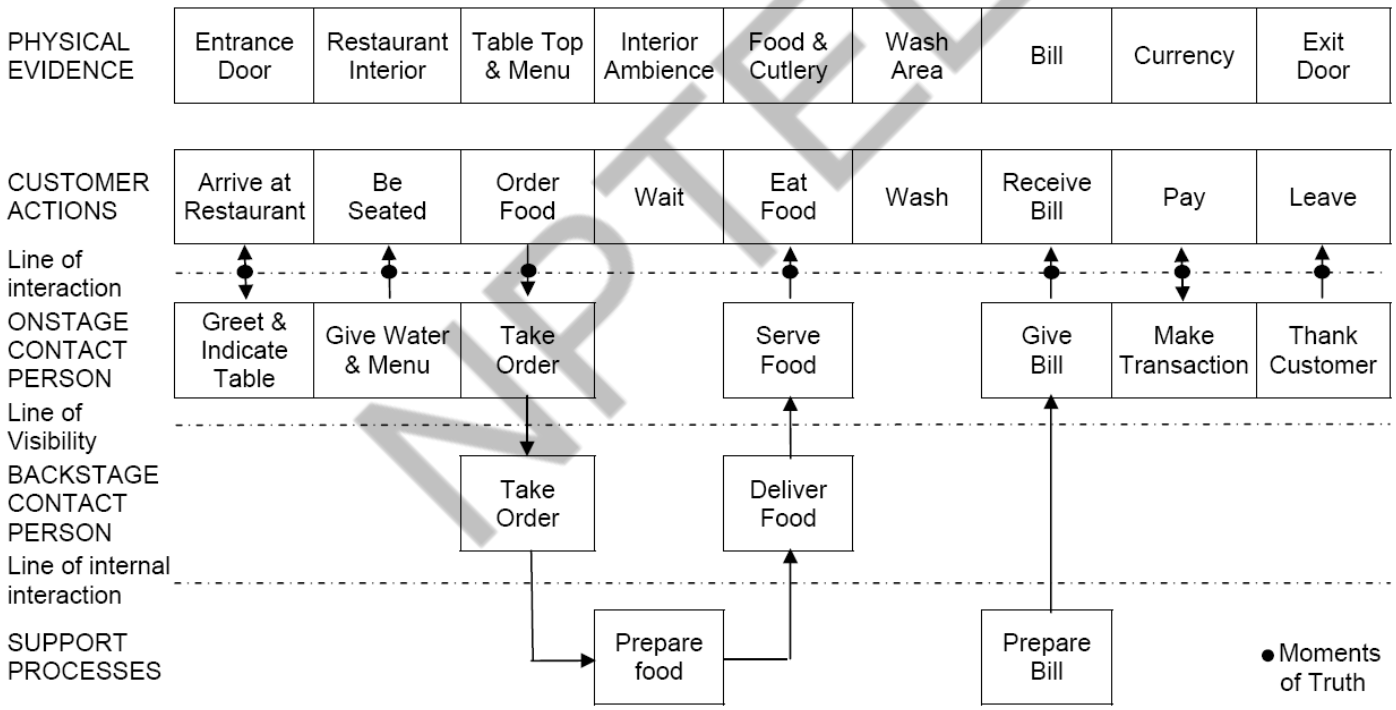
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Stage 4: Service Concept Development

An idea that appears feasible and profitable is taken up for development of the service concept. The service concept is the description of the service in terms of the value it will provide customers, the form and function of the service, the type and level of experience that customers are likely to receive from the service, and the outcome of the service. The concept is developed by involving customers, service personnel, service managers, suppliers and other professionals such that it is acceptable to all and everybody agree that it is likely to provide much needed benefits to the customers. Further details about the service concept are discussed in a future lesson. The service concept is tested with customers and employees and is dropped if it is not found to offer substantial benefits to customers in comparison to existing alternate methods by which customers can satisfy their need.

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A blueprint of the service can also be drawn at this stage as elaborated in the figure below. The blueprint would help in laying out the service process and estimating various costs involved in delivering the service to customers. This would help in estimating the profitability of the service business and developing the business case as discussed in the following section.



Blueprint of a typical Restaurant Service

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Stage 5: Developing the Business Case

The service concept is then tested for marketing, technical and economic feasibility as discussed in Lesson 6. It is ensured that it will be possible to deliver the services in a manner acceptable to customers, the customers are willing to purchase the service, and the service remains profitable with a three-year ROI/ROCE that is greater than the prevailing bank interest rate. If the service does not seem to be profitable, it must be dropped without incurring any further cost in developing the concept further. The profitable business case is then developed for approval of the management and representatives of the shareholders and investors.

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Stage 6: Service Development and Testing

Once the business case for the service has been approved, it is taken up for development of the actual service. The blueprint of the services is further developed and the service prototype is tested with actual customers. For example, a bank can test new ideas by reorganizing current branches for the test period and observing and collecting data from actual customers about the benefits of the new idea. One bank found that installing TVs with CNN channel reduced the perceived waiting time for the customers and then the same was taken up for implementation in big branches. In this way all new concepts are tested and those ideas that do not provide substantial benefits to customers are promptly dropped.

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Stage 7: Market Testing

Once the service prototypes have been tested, these are put together for a pilot test. Alternative marketing mix elements or 7Ps options are tested at this stage. At first, the pilot service is offered to the employees of the organisation and their feedback is collected. The service is then modified according to the feedback received and is offered to actual customers for a short period and their feedback collected. The feedback is analysed for effecting further modifications in the service and tying up any loose ends. If the service passes the market testing phase and it is found that customers are enthusiastic about the new service and the service is estimated to generate profits, the service development is taken to the next stage.

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Stage 8: Commercialisation

The plan for rolling out the new service is then drawn up. It is usually rolled out in a phased manner by opening it up in the least risky markets and then quickly spreading it to other markets if the feedback is favourable. Commercialisation has two important objectives. The first objective is to elicit the support of the large number of service personnel who are going to deliver the services. At this stage the new service is marketed to the employees of the organisation as a new smart offering that generates profits and bonuses for the organisation. The second objective is to monitor the service throughout the period that customers purchase and use the service. Every interaction at the moment of truth and every detail is monitored and feedback collected from the customers as to whether the latter's needs are being fulfilled, whether they are deriving benefits from the service and are satisfied and what modifications they would like to be made in the service. The service is constantly modified based on the feedback collected. Customers' comfort with the price and other marketing mix elements is thoroughly ensured by the service manager and adjustment and improvements are continuously made so that customers feel a compelling need to purchase the service.

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Stage 9: Post-launch evaluation

The service is reviewed for performance according to a pre-planned period of review. Customers, employees, the market and the context keep changing with time. It is important to effect necessary changes periodically in the service in line with the changes in the above dimensions. The service blueprint comes in handy at this stage. It is also inspected for alternate ways to gain further efficiency and pass on part of the benefits so accrued to the customers and part of the same to the organisation. Customers and employees are requested for new ideas for this new service and same are incorporated to be able to provide the latest to the customers and to remain ahead of competitors in the marketplace.

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Lesson 16 The Service Product

The Flower of Service

Developing the Service Concept

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In 1992, Professor Christopher H. Lovelock wrote about the flower of service as depicted in a figure that will be discussed later. The core service relates to the service outcome involving the transformation of the consumer or his possessions, for which the customer purchases the service in the first place. The eight supplementary services shown in the diagram can be further divided into facilitation services and enhancing services.

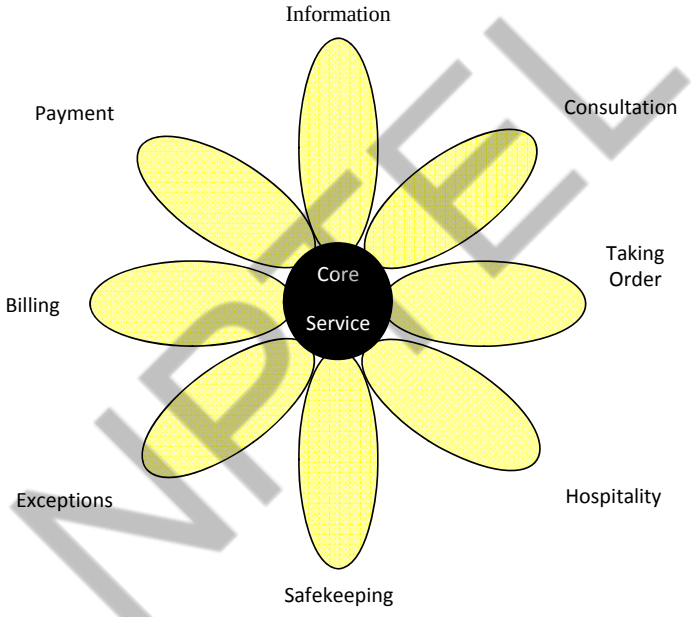
Providing information, taking order, billing and receiving payment facilitate the delivery of the core service and must be provided with it. Consultation, hospitality, safekeeping and managing exceptions are enhancing services which may be provided at varying levels depending upon the customer requirements consistent with the service concept and the service mix.

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Consultation includes providing advice, customer training and counselling in the use of the services and products associated with the service. Hospitality enhancement services include services that are designed to provide comfort to the customer. These include transportation, security, greeting the customer, offering drinking water, food and beverages, provision of toilets and washrooms, provision of waiting areas and amenities like seating, magazines and newspapers, entertainment and weather protection. Safekeeping includes taking care of customers' possessions like pet care, safe car parking, keeping baggage at retail outlets, etc. Managing exceptions include complaint handling and redressal, taking care of special requests like delivery during a particular time window, problem solving like accident handling, etc., and handling suggestions and compliments.

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The Flower of Service



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Fitzsimmons and Fitzsimmons have defined the term ‘service concept’ in their book entitled “New Service Development: Creating Memorable Experiences”. Accordingly, service concept is defined as what the company does and what its customers can expect from the service. The service concept has four attributes as follows:

1. Value: what customers are willing to pay for
2. Form and function: the overall shape of the service, how it is created and how it is operated
3. Experience: the experience as perceived by customers
4. Outcomes: the stated or assumed benefits that the service provides to the customer and the service providing organisation

An example of the service concepts of two airlines given in the above book is written in the table on the next slide.

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Developing the Service Concept

Service Concepts of Two Airlines

Service concept	British Airways	Easy Jet
Value	Global coverage Enhanced customer service at high price	National coverage: Select routes Low price
Form and Function	Integrated network Global route structures Hub and spoke operations	Stand-alone network National network Point to point operations
Experience	Several service levels, i.e., executive, business and economy Full service	Single service: economy No frills
Outcome	Interconnected destinations On-time reliability	Single destination Frequent flights

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The service concept for the OnRun auto-rikshaw service mentioned in an earlier lesson can be written in terms of the four attributes as:

1.Value: Reliable pick-up and comfortable door to door travel

2.Form and function: Fleet management infrastructure in place

3.Experience: Comfortable auto-rickshaw with FM radio and bottled drinking water.
4.Outcome: Least waiting time for auto-rickshaw; door to door travel.

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Lesson 17 Service Quality - I

What is Service Quality?

What is Customer Satisfaction?

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What is Service Quality?

Adapting from what is written down in ISO 9001: 2000, quality can be defined as the characteristic of the service that bears upon its ability to meet customer requirements.

Customer requirements can be of following three types:

1. Those stated by the customer,
2. Those generally implied as provided by similar services, and,
3. Those obligatory on the part of the service provider. For instance, it is obligatory for service providers to provide information regarding the price of the service as and when sought by the customer.

In the case of services, customer requirements consist of: 1. the service outcome, i.e. the reason why customers purchased the service in the first place, or, what is left with the customer after the service is over, and 2. the expectations of the customer, that is the manner in which (or how) the service is delivered to the customer.

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What is Customer Satisfaction?

Customers are **satisfied** when their requirements are met. It is dependent upon the quality of the service and the value that the customer receives from the service.

The **value** received by a customer is the difference between the benefits received from the service and the costs incurred for receiving those benefits.

Customers are **dissatisfied** when their requirements are not met. Customers are delighted when the delivered service exceeds their expectation of the requirements that would be met by the service.

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For example, you might be enjoying ice-cream at an ice-cream parlour with a kid. The kid drops some ice-cream on your clothes. Observing this, the waiter brings you some moist tissue to wipe off the spillage. You did not expect that the waiter will deliver this bit of service to meet your requirement in this case. Thus, the waiter exceeded your expectation and you would be delighted to receive this bit of service.

Soon, you would begin expecting this sort of service from waiters, and it would become part of the expected service.

Now, if this bit of service is not delivered at another instance of a similar mishap, you would be disappointed and dissatisfied with the service.

Thus, the bit of service that causes delight currently, soon becomes part of the generally implied requirements for the customer and must be met by the service provider at an affordable, yet profitable, price to satisfy the customer.

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Lesson 18 Service Quality - II

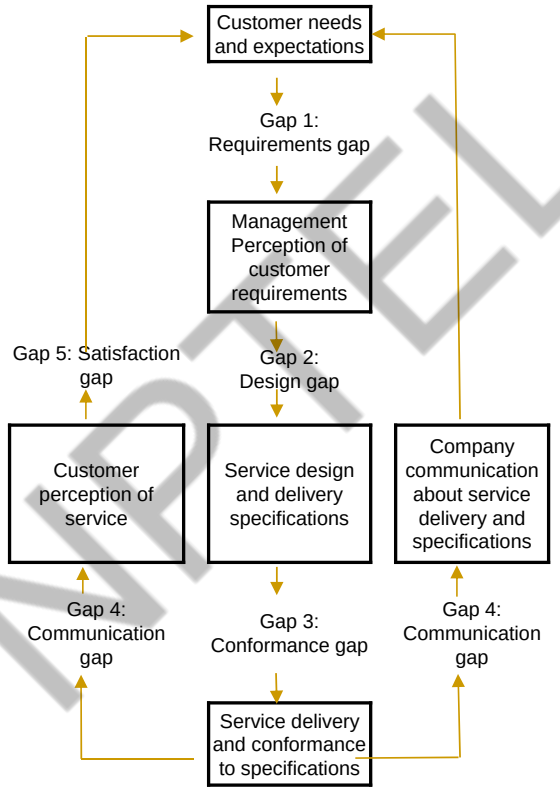
The Gap Model of Service Quality

Dimensions of Service Quality

Measuring Service Quality

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The Gap Model of Service Quality



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Professors Parasuraman, Berry and Zeithaml published the gap model of service quality in 1985. According to this model, five gaps lead to poor quality of services delivered to a customer. The gaps must be closed in order to deliver excellent quality. We shall discuss how each of the gaps can be closed in the following sections.

Gap 1 - Requirements gap: This gap follows from management's ignorance of customer requirements. This gap can be addressed by taking the following steps:

1. Adequate marketing research orientation: This includes conducting sufficient market research about customer requirements, instead of basing our decisions on intuition or gut feeling, and incorporating the conclusions into service design and delivery.
2. Adequate upward communication: This includes adequate direct communication between customers and management, adequate communication between customers and the service personnel and adequate communication between service personnel and the management regarding the requirements of customers.
3. Adequate focus on customer relationships: This includes proper market segmentation and carefully marketing to the intended segment, interacting with customers while treating them as long-term relationships instead of treating them as short-term transactions and focusing on understanding and serving current customers instead of running after acquiring new customers.
4. Adequate service recovery: This includes having a process of understanding why a customer was dissatisfied with a faulty service delivery, delivering the correct service to the aggrieved customer, learning the lessons and incorporating the lessons into future service delivery.

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Gap 2 - Design gap: This gap is about building an incorrect service design and incorporating unsatisfactory service standards. This gap can be addressed in the following manner:

1. Proper service design: This includes having a systematic service design process leading to clear delivery and connecting the design and the services mix to the positioning of the service in the minds of the customer.

2. Incorporating customer driven standards: This includes having a process of eliciting the standards of service delivery at each moment of truth from our customers. The company must adhere to these service standards and not fall below the customer specified levels.

3. Appropriate servicescape and physical evidence: This includes having appropriate design and construction of a comfortable servicescape to meet the needs of customers and service personnel in production and consumption of services, adequate maintenance and updating of the servicescape and developing physical evidences, such as servicescape merchandise, in line with the expectations of the customers.

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Gap 3 - Conformance gap: This gap is about service personnel not delivering to established standards and procedures. This gap can be addressed by taking the following measures:

1. Effective human resource policies: This includes effective recruitment, clear service roles, ensuring proper employee-technology-job fit, appropriate evaluation and compensation systems, adequate empowerment to be able to serve the customer up to his/her expectations, adequate control over situations and excellent teamwork keeping customer satisfaction as the main goal.
2. Properly educated customers: This includes customers fulfilling their roles and responsibilities and affecting other customers positively.
3. Good relationships with service intermediaries: This includes clarity over the roles of the intermediaries like agents, franchises, brokers, retailers, etc., appropriate empowerment, and inculcating the discipline of taking customers and their requirements seriously and endeavouring to meet those to the satisfaction of the customer, and having systems to control the quality and consistency with which intermediaries deliver the services to the customers of the brand.
4. Successfully matching demand and supply: This includes the ability to divert peak hour customers to lean hours, and the capability to cross-train employees for smoothly handling customers and delivering services during peak hours while adhering to service standards.

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Gap 4 - Communication gap: This gap is about the difference between actual delivery of service and the promises and perceptions communicated during advertising and promotion of the services. This gap can be addressed by the following methods:

1. Having integrated marketing communications: This includes maintaining consistency among all communications about the service offering, proper marketing and communication about the service to employees and ensuring proper interactive communication among service personnel and customers in order to give them the correct perception of the service.
2. Under-promising and over-delivering: This includes delivering more that what is promised and remembering that actions speak louder than words.
3. Adequate horizontal communications: This includes having adequate communications throughout the company and her collaborators about the services so that no gaps and confusions arise due to difference in knowledge between the various arms of the service company.

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Gap 5 - Satisfaction gap: This is the gap between customers' expectations and perception of the actual service experience by them. This gap can be closed by closing the four gaps discussed earlier.

In 1982, Professor Christian Gronroos wrote that service quality can be of two types: 1. technical quality, i.e., the quality of the outcome and 2. functional quality, i.e., the quality related to the manner in which, or how, the services have been delivered.

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Dimensions of Service Quality

Based on their research, Professors Parasuraman, Berry and Zeithaml advanced five dimensions of functional service quality in 1988. These include the following:

1. Reliability: Ability to perform the promised service dependably and accurately
2. Responsiveness: Willingness to anticipate customer needs, help customers and provide prompt service
3. Assurance: Knowledge and courtesy of employees and their ability to inspire trust and confidence
4. Empathy: Caring, individualized attention that is provided to the customers
5. Tangibles: Appearance of physical facilities, equipment, personnel and communication materials

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Service Quality Measurement

The five dimensions of service quality discussed earlier, form part of the 44-item 'SERVQUAL' questionnaire used for measuring service quality. 22 items in the questionnaire are used to measure customer expectations about a particular service, while 22 similar items are used to measure customer perceptions of the performance of the service. Although other authors have advanced other dimensions of service quality, based on the particular service under research, the SERVQUAL dimensions have been largely accepted as intuitively appealing and have been widely used to measure the quality of services.

The above 44-item questionnaire can be converted into a 22-item questionnaire that measures customer perceptions of service performance against their expectations of service. Such a questionnaire is given in the Table shown in the next slide.

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22-Item Questionnaire for Measuring Service Quality

Directions: The following set of statements relate to your perception of the performance of XYZ against your expectations from XYZ. For each statement, please show the extent to which you believe XYZ has performed against your expectations.

	Item	Much less than expected	Less than expected	Same as expected	More than expected	Much more than expected
1.	XYZ has up-to-date equipment					
2.	XYZ's physical facilities are visually appealing					
3.	XYZ's employees are well-dressed and appear neat					
4.	The appearance of the physical facilities of XYZ is in keeping with the type of service provided					
5.	When XYZ promises to do something by a certain time, it does so					
6.	When you have problems XYZ is sympathetic and reassuring					
7.	XYZ is dependable					
8.	XYZ provides its services at the time it promises to do so					
9.	XYZ keeps its records accurately					
10.	XYZ tells customers exactly when services will be performed					
11.	You receive prompt service from XYZ's employees					
12.	Employees of XYZ are always willing to help customers					
13.	Employees of XYZ are too busy to respond to customer requests promptly					
14.	You can trust employees of XYZ					
15.	You feel safe in your transactions with XYZ's employees					
16.	Employees of XYZ are polite					
17.	Employees get adequate support from XYZ to do their jobs well					
18.	XYZ gives you individual attention					
19.	Employees of XYZ give you personal attention					
20.	Employees of XYZ know what your needs are					
21.	XYZ has your best interests at heart					
22.	XYZ has operating hours convenient to all their customers					

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Lesson 19 Designing the Service Process - I

Developing the Service Blueprint

NPTEL

Service Blueprint

You will appreciate that we should design the service process properly so that our company can deliver superior quality services to its customers. The plan for delivering the services, called the service blueprint, must be drawn so that all parties clearly understand how a service is to be delivered to its customers.

While the service blueprint is a physical plan of the service process, we have to also understand the expectations of customers at various points during the process of service delivery.

You will recall, that our service would be considered to be of high quality only when it meets the expectations of our customers who purchase the service. A service blueprint gives an indication of the roles that employees, customers and collaborators have to play so that customers can get the benefit of the service and its outcomes. These issues have been discussed in this lesson.

NPTEL

Service Blueprint

In 1984, G. Lynn Shostack coined the term “service blueprint” to mean a visual diagram of the service processes in terms of the step by step actions that the customer would be expected to follow in order to receive the service. The service blueprint of a restaurant is depicted in the figure later in this session.

We can see that each customer action will take place at a physical location which is part of the servicescape. It is important that each part of the servicescape gives the impression expected of the brand to the customer, as the customer would be observing these physical cues of the service.

For instance, a creaky door at the entrance would signify an ill-maintained service outfit, and a soiled menu card would raise doubts in the minds of customers about the level of hygiene maintained at the restaurant. On the other hand, a light, refreshing music can help to provide some comfort to a tired and hungry customer while he is waiting for the food to be served at a sit-in restaurant.

NPTEL

Service Blueprint

The customer would be interacting with service personnel, who are called ‘on-stage contact’ as these contact employees would be visible to the customer while interacting with them and performing the service. You may note, that, on-stage contact personnel interact with the customer at several points in the ‘line of interaction’. These points can be considered as pictorial representation of the ‘moments of truth’ – a term coined by Jan Carlzon in 1980 to signify the moments when service personnel interact and deliver a part of the service to the customer.

At each of these points, contact personnel must fulfil the needs of the customer and satisfy him/her. If they are unable to meet the needs of the customer at these points, the customer will be dissatisfied. However, the customer will be delighted if contact personnel are able to figure out the latent needs of the customer at these points and deliver a part of service that has not been expected by the customer.

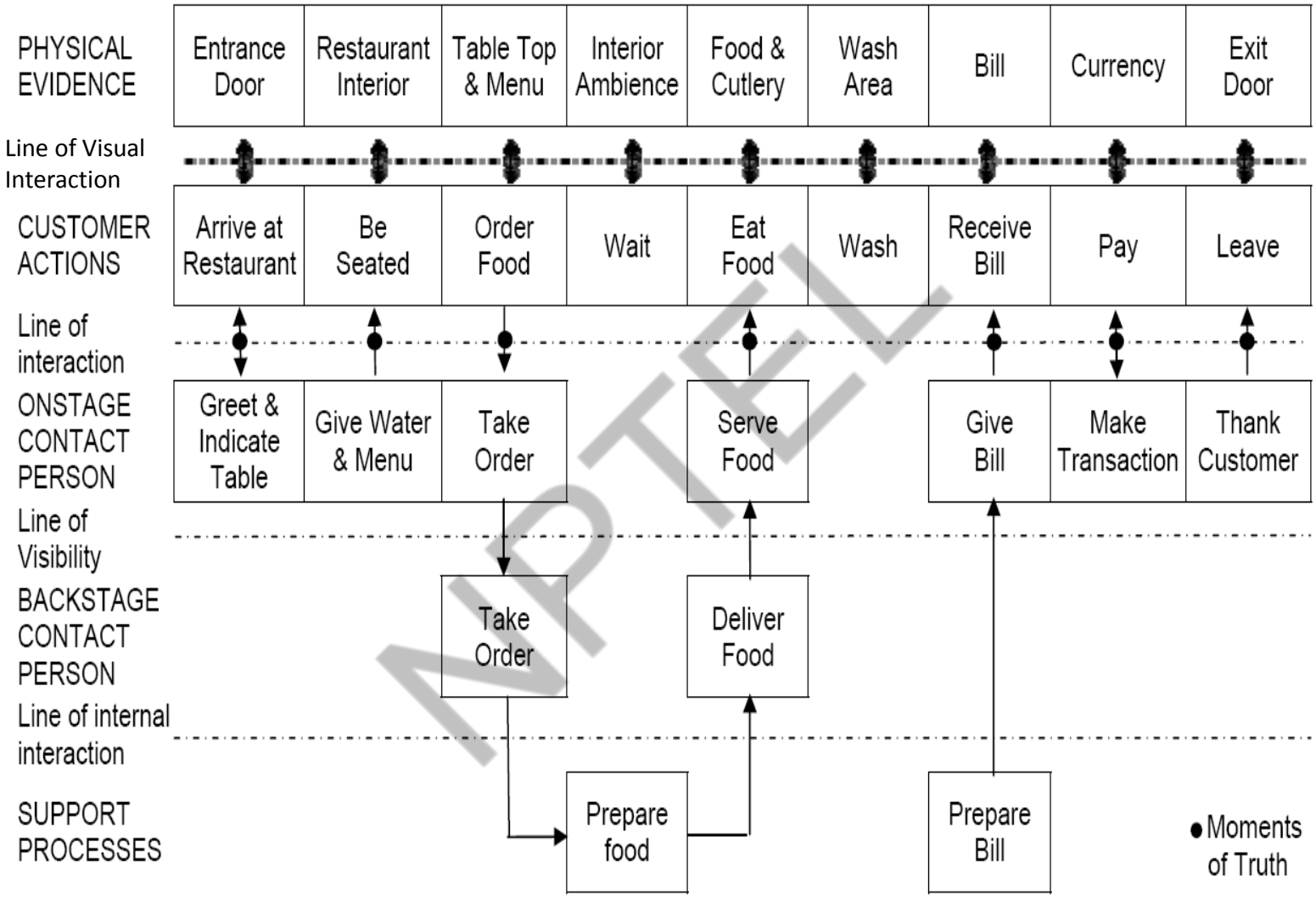
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Service Blueprint

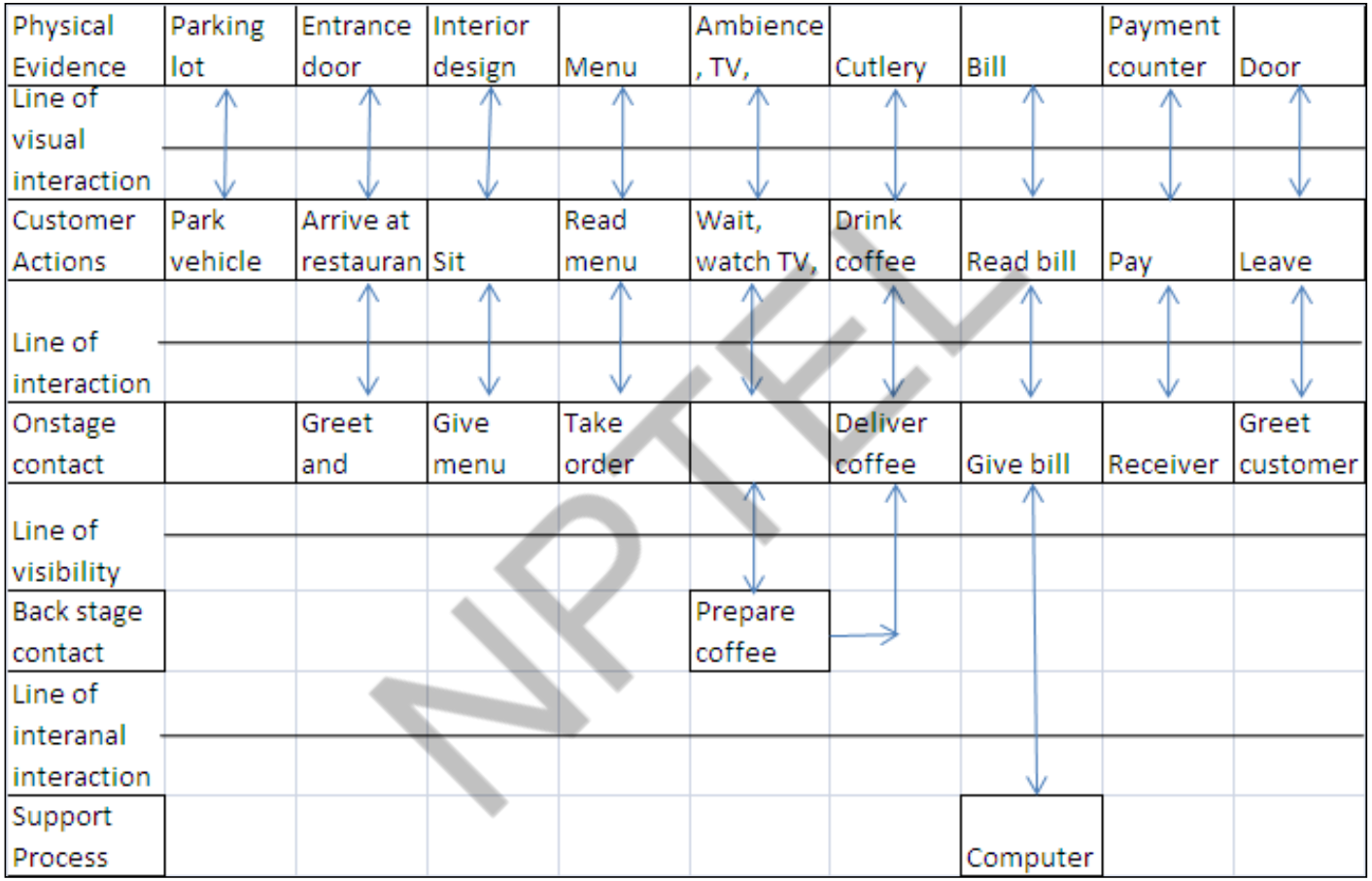
Just as customers would have interactions with service personnel, they would similarly interact with elements in the servicescape, knowingly or unknowingly. They must have a pleasant experience with these ‘moments of truth’ too. That is why it is important to give enough attention to the design of the elements of the servicescape as these elements would in-turn determine the quality of experience that customers have at a particular servicescape.

On-stage contact personnel would receive support from ‘back-stage contact’ personnel, who would not be visible to customers. Yet they may serve the customer over phone, internet, etc. Hence, backstage contact personnel are separated from the customers by a virtual ‘line of visibility’. Service personnel may be further supported by various support processes often driven by a computer. Often, customers would interact with the front-end of a support process like a computer touch-screen for receiving information as part of their service.

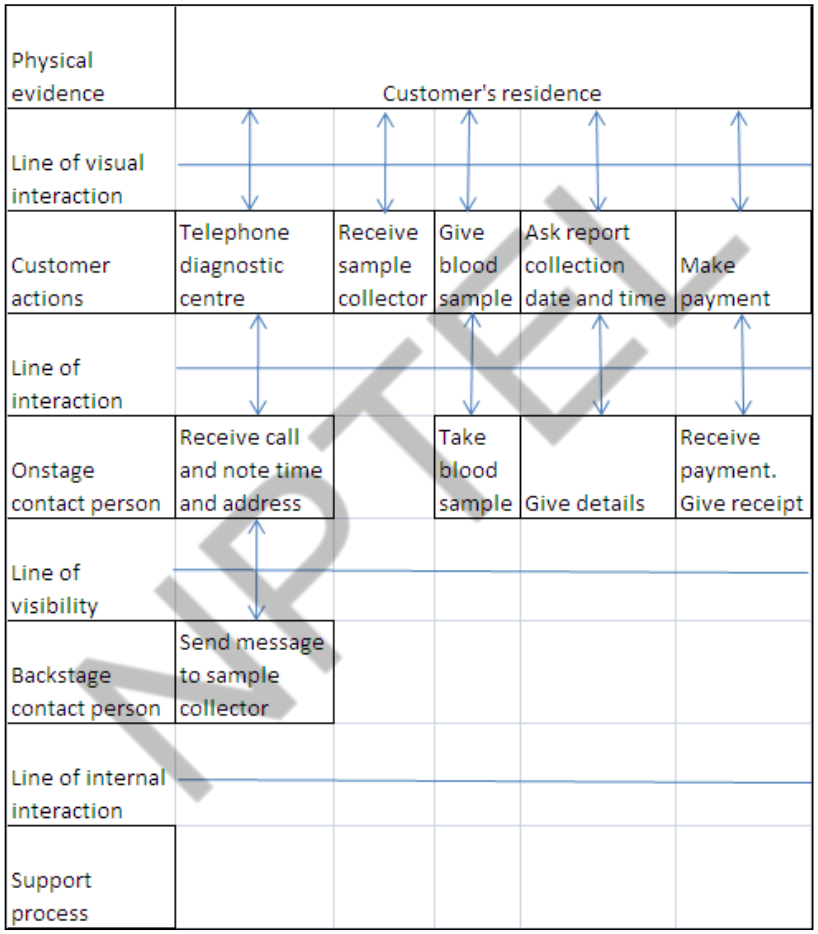
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Blueprint of a Restaurant Service



Service Blueprint of Coffee Cafe



Service Blueprint for Blood Collection Service from Patient's Residence

Once the blueprint of the service is ready, the service has to be developed further in terms of designing the moments of truth. For this, we would need to know the expectations of customers at each moment of truth. Moreover, the roles of various actors in the service delivery including the service provider and the consumer can be written out in detail in the form of a service script which employees and others must learn in order to be able to properly deliver the service to customers. This aspect has been discussed in the next lesson.

NPTEL

Lesson 20 Designing the Service Process - II

Understanding Customer Expectations

Preparing the Service Script

NPTEL

Understanding Customer Expectations

In the previous lesson, we have discussed that on-stage contact personnel would actually deliver parts of the service to customers during the moments of truth.

Who decides what to perform and what to deliver? If your answer to this question is, that, the customer decides what has to be delivered at each moment of truth, then you are quite right.

Service personnel have to deliver what the customer expects at each moment of truth of a particular service. In case we are wrong about what customers expect, and, we deliver something that is unpleasantly different from their expectations, customers would get dissatisfied with our service and refuse to purchase the same. Therefore, we have to learn about what customers could expect from the service that we wish to deliver.

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Understanding Customer Expectations

Customer expectations can be either in the form of their prediction as to what they are likely to receive from the service personnel, or what they desire they can and should be receiving from the latter.

For instance, customers would expect that the postal service will deliver their mail someday, but they might desire that the mail be delivered next day.

The first category of expectations is called ‘would’ expectations while the second category of expectations are called ‘should’ or ‘desired’ expectations. As a customer focused service provider, we will be more interested in the ‘should’ expectations of the customer as fulfilment of those expectations is likely to satisfy the customer.

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Understanding Customer Expectations

While customers have their desired expectations, they are normally prepared to change the level of their expectations depending upon previous experiences, information captured from various sources or the current situation.

Accordingly, they would settle for a minimum or 'adequate' level of service that could satisfy them for that instance of service. For example, when customers find that the service facility is crowded with other customers, they would start expecting lower levels of service from what they would ideally desire from the service personnel.

It is important for us to know the minimum level of service that could satisfy customers, as they would be dissatisfied if the service level fell below this minimum level. This could motivate them to leave the service without purchasing it. They are likely to talk ill about the service to others as dissatisfied customers tend to talk to more people about their frustrations while satisfied people talk to relatively lesser number of people about their positive experiences.

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Understanding Customer Expectations

Customer expectations could have the following orientations:

Outcome orientation, i.e., customer expectations of what (e.g. a haircut) he/she should receive from the service,

Process orientation, i.e., customer expectations of how (e.g. smoothly or happily) he/she should receive the outcome of the service, and

Relationship orientation, i.e., customer expectations about how he/she can relate (e.g. as a non-intrusive friend) to the service personnel.

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Understanding Customer Expectations

How will we find out what customers desire from our service personnel at each moment of truth, depicted in blueprints discussed earlier? If your answer is that you will take a representative, yet random sample of customers from our target market and ask them, you are on the right track.

We must ask our customers to imagine the situation from their past experience of the moment of truth in a same or similar service. Then we must ask them to write down *not* what happened, *instead* their desire as to what service personnel should be doing during the particular moment of truth and how he/she should be doing it. Thereafter we must collate the customers' desired expectations at each moment of truth in order to serve them better.

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Understanding Customer Expectations

It is possible that the desired expectations vary, both with respect to their content, and the level of intensity for different customers. For example, at the entry to a restaurant, some customers may desire a smooth door which they can operate themselves, others might wish that the door is opened for them by the doorman, still others may wish that they be greeted by the doorman while opening the door while some customers might desire that they be greeted with a rose at the time of entering the restaurant.

Which of these desires are to be acceded to? One simple way is to provide what most of the customers want. However, the expectations may not point towards a single mostly demanded desire in some cases.

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Kano's Model

There is a more sophisticated method of choosing which of the above desires should be satisfied at the moment of truth. Noriaki Kano and his colleagues developed a method around 1979 by which various requirements of customers could be classified into three categories as follows:

1. Must-be requirements: Take the example of the provision of soap in the washroom of a restaurant. Customers would be dissatisfied if these requirements are not fulfilled but would take it for granted when these are provided.
2. One-dimensional requirements: Take the case of the speed with which food is served at a restaurant. Customers would be more satisfied with faster service and less satisfied with slower service. In general, customers' satisfaction would be proportional to the level that their requirement is fulfilled.
3. Attractive requirements: Imagine the example of receiving a rose at the time of entering a restaurant. Customers would be delighted, when such requirements are fulfilled, but will not be dissatisfied when these are not fulfilled.

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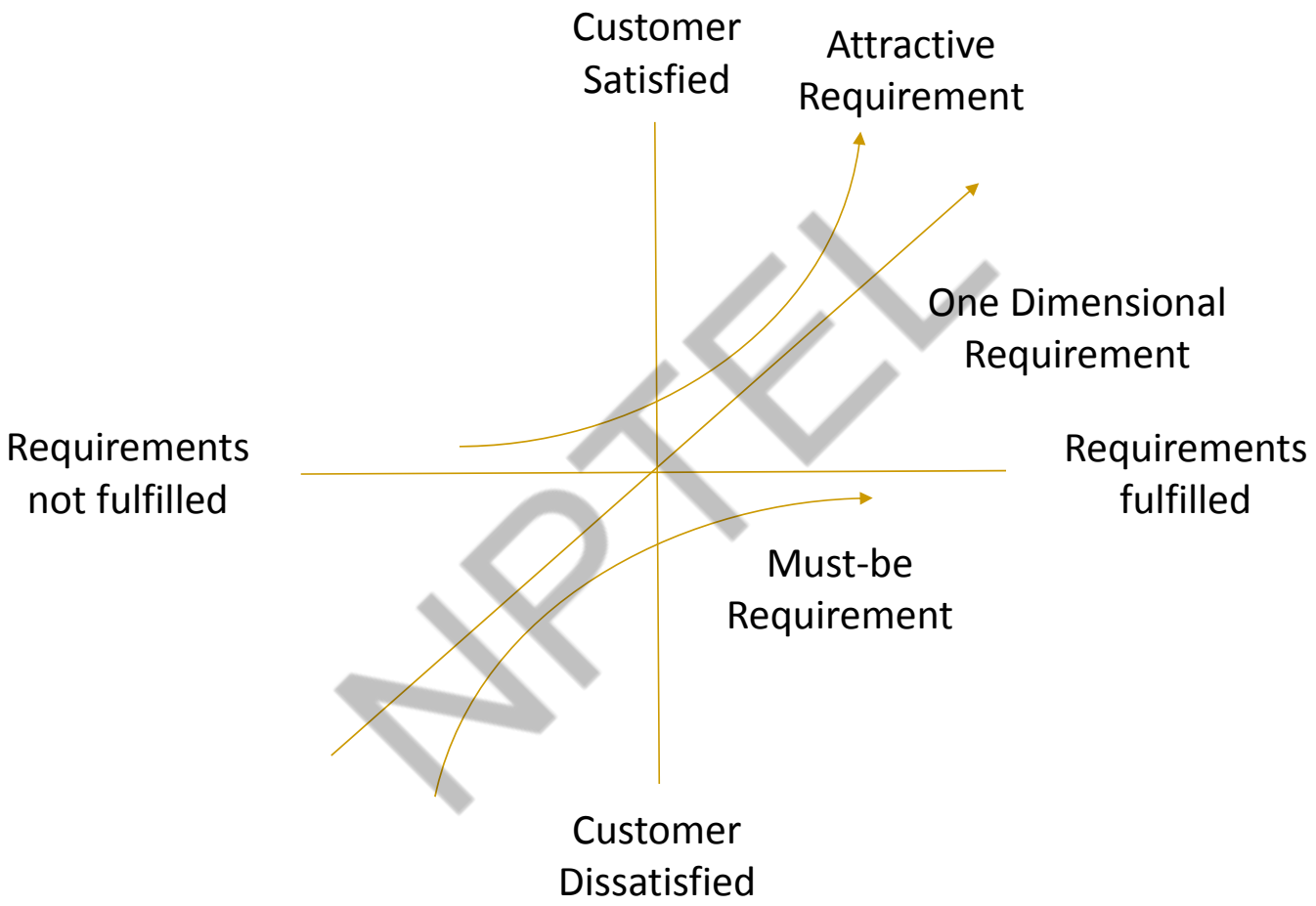
Kano’s Model

Kano’s model has been depicted pictorially in the next figure. In order to categorise desired customer expectations into the above three categories, the customers would have to be asked a pair of functional and dysfunctional questions. In order to categorise customers’ wishes to be greeted with a rose at the time of entry, the pair of questions would be as follows:

Functional: How would you feel if you are given a rose at the time of entry?
Dysfunctional: How would you feel if you are not given a rose at the time of entry?

Customers would be asked to answer each of the above questions in terms of the following options: 1. I like it that way 2. It must be that way 3. I am neutral 4. I can live with it that way 5. I dislike it that way. Now the mean value of the answers of all the respondent customers are plotted on the Kano Evaluation Table and the requirements classified into each of the three types, attractive, must-be or one-dimensional.

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Kano's Model

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Kano Evaluation Table

Customer requirements		Dysfunctional				
		1. like	2. must-be	3. neutral	4. live with	5. dislike
Functional	1. like	Q	A	A	A	O
	2. must-be	R	I	I	I	M
	3. neutral	R	I	I	I	M
	4. live with	R	I	I	I	M
	5. dislike	R	R	R	R	Q

A = attractive
M = must-be
O = one-dimensional

I = indifferent
R = reverse
Q = questionable result

NPTEL

Kano's Model

Now we must ensure that all must-be requirements are fulfilled, the one-dimensional requirements are fulfilled as much as possible with respect to what the competition does and the attractive requirements are fulfilled to distinguish our service from our competitors. In this way we can ensure that we are on the track of providing customers what they want so that they can be motivated to purchase our services.

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Preparing the Service Script

Once we have decided what and how service personnel are going to perform at each moment of truth, we have to write down the service script. The service script would encapsulate the customer expectations in print that are to be met by our service offering, i.e. what and how service personnel would deliver the service at each moment of truth.

For instance, the script would mention how the door attendant would greet the customers, and open the door to let them in. It would also mention that if the capacity was full, the attendant would tell that to the customers, give them an estimate of the time they would have to wait for their turn, request them to sit down in the waiting area or advice them to visit another restaurant if other customers were already waiting in queue.

Similarly, the waiter would have to learn the script to take and confirm the order, to serve in the right manner, to take feedback and present the bill at the right time and the right way.

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Preparing the Service Script

Collector	Patient
1. Greet care giver (s) and patient	Greets collector
2. Make patient comfortable by conversing with him/her till he/she becomes ready to give the blood sample	
3. Determine the site from where to draw blood	
4. Draw blood easily and carefully	Allows collector to draw blood
5. Tell patient / care giver the due date and time of the report	
6. Tell patient / care giver the price of the service and wait for acceptance	
7. Respond to patient / care giver, if any	
8. Prepare the bill and hand it over to the patient / caregiver	
9. Receive the money and return change, if any	
10. Say “bye – have a good day”	Bids “bye”

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Service script for blood sample collection service from a patient’s residence

Preparing the Service Script

You must have noted that the script removes ambiguity about what and how the service has to be delivered at each moment of truth, ensures that the service is completely delivered without the customer having to undergo discomfort in fulfilling missing links like beckoning the waiter again and again to state his requirements.

The service script pinpoints the exact role each service personnel has to play in order to deliver the service correctly. Even when something goes wrong in the delivery and the customer complains, service personnel have to learn the script to be followed to handle the irate customer and make good or 'recover' the service!

The service script, is prepared in consultation with the service personnel, the service manager and a representative customer. The script is acted out few times before being finalised and is used for training service personnel.

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