SERVICES MARKETING
A Practical Approach

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Lesson 21 Developing Service Personnel

Appropriate Human Resource Policies

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The employees of the service providing company have a considerable role to play in delivering services to their customers. Among other things, they must clearly know the role they have to play in delivering the service and to do it properly in order to meet the expectations of their customers. Appropriate human resource policies have to be evolved and implemented. A culture of quickly understanding customers expectations and meeting them effectively and efficiently has to be set up through these human resource policies and programmes. These issues have been discussed in this lesson.

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As we know by now, service personnel deliver services to customers during the moments of truth. Hence, the performance of service personnel becomes central to the quality of services being delivered. It was discussed in an earlier lesson that service quality gap #3 between specified service standards and the actual delivery can be addressed by using good human resource policies. Most dimensions of service quality can be influenced by the service personnel.

Service personnel must be reliable, i.e. able to perform the promised service dependably and accurately. They must be responsive, i.e. be willing to anticipate customer needs, help them and provide prompt service. They must assure customers with their knowledge and courtesy and their ability to inspire trust and confidence. They must be empathetic towards customers, have their best interests at heart and provide them caring, individualized attention. Finally, their dress, demeanour and personality are important for effectively interacting with customers and keeping them satisfied and happy with their service purchase.

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In order to ensure that customers receive the right kind of experience from the service personnel, several human resource policies must be followed. These policies are listed in the next slide and are discussed in the following sections.

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Appropriate Human Resource Policies

Human Resource Policies for Service Personnel for Delivering Superior Quality Service

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

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Above policies have been discussed in detail in the following paragraphs.

1. **Hire the right people**: Service employees need to work with customers. Notwithstanding the circumstances of the day and their personal moods, likings and dis-likings, they must believe that customer requirements are of utmost importance and those have to be met to their satisfaction. They must have experienced the joy of serving others and take pleasure in doing so.

At boundary spanning roles at the outer edge of their organisation in contact with customers and the external environment, service personnel have to juggle customer service with operations and sales and can be subject to lots of 'emotional labour' – a term coined by Arlie Hochschild in 1983. They must have integrity and learn and imbibe other universal values that are important to their customer segment. They must have a positive attitude towards helping customers and solving their problems instead of having a habit of passing the buck and giving excuses as to why something cannot be done. They must have an overall pleasant personality, take interest in their service and have a healthy, joyful demeanour. In order to hire the right people the company can follow the strategies discussed next.

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a. *Compete for talent*: Our company can identify the best talent available and compete with other companies to hire them. Alternatively, we must assess a number of people for a particular post in order to get the best talent available.

b. *Hire for service competencies and inclination*: Prospective employees must have the requisite competencies as indicated by the certificates of various courses that they have undertaken. An in-company test can also be conducted to assess the knowledge and skills required for a particular job position. Similarly, an employee who is to be selected as a service provider must have an inclination towards the service as discussed earlier. Employees with high degree of helpfulness, thoughtfulness and sociability are more preferable than others for delivering superior quality services.

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c. *Be a preferred employer*: Prospective candidates must look forward to joining our company and working for the same. It is well known, that, only satisfied and happy employees are in the best position to satisfy and delight their customers. Best pay in the industry, opportunity to own company stock, scope for learning advanced skills, recognition, reward and feedback, scope for career advancement and growth, a friendly, positive, caring and supportive internal climate along-with long-term association intent can go a long way for the company to be a recruiter of choice for prospective employees. Flexible working locations and hours, facilities to look after employees' children, employee heath care and welfare (including rest rooms) are also important to keep employees happy and worry-free so that they can give their best to the customers of the company.

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2. Develop people to deliver superior quality services: Once the company has hired the right employees she must train and work with them to develop them into skilled service professionals. The following three strategies can help in this direction:

a. *Train for technical and interactive skills*: Service personnel must be regularly trained for imparting, upgrading and reinforcing appropriate knowledge, skills and attitude. Integrity, i.e. honesty, truthfulness and commitment must be enforced and measured as it is the single most important factor leading to the maintenance of a climate of trust and helpfulness in the organisation, finally resulting in company profitability. Interpersonal, leadership and team-working skills are also to be imparted so that service personnel can effectively communicate with customers to fulfill their needs and satisfy their expectations.

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b. *Empower employees*: This includes giving employees the desire, skills, tools, training and authority to do whatever is takes to meet customer requirements, without giving away things free of cost. Empowerment helps employees feel that they are in ownership of the service processes and experience the joy of serving and satisfying their customers. Empowered employees can recover services better whey something fails. They can afford to work closely with customers and build a relationship with them. Such business relationships can go a long way for the customers to patronize our service business. This can prove profitable for our company as loyal customers are prone to repurchase our services, advice others to do so, forgive quickly in the event of service failure, be prepared to pay increased prices and ignore our competitors' offerings.

c. *Promote teamwork*: This includes educating employees to understand how the service is basically delivered by a team. Moreover, each employee must visualize how his role and performance affects the extent to which customers are satisfied or delighted with their service. Service personnel must also be imparted training on multiple skills so that they can fulfill each others' roles in the absence of colleagues, serve more efficiently and effectively during peak hours, and earn flexi-time benefits during lean hours. Team-working also helps release stress as difficult jobs can be shared among team-mates and they can discuss and evolve better ways of delivering those services.

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3. **Provide needed support system**: Employees can best serve their customers when they are in-turn supported by internal systems and other colleagues in their company. For instance, call centre employees can best answer customer queries when they have customer data and other information ready on their computer screens. The following strategies can help in this regard:

a. *Measure internal service quality*: Each employee receives services of other employees in the company in order to execute service performance for the ultimate customer. Service employees can identify which other employees do they serve and how that service helps in the service delivered to the external customer. Then they can measure the quality of service they provide to internal customers. For instance, one employee may be providing supplies to another employee who remains busy with customers. Much valuable time can be lost with accompanying irritation if supplies do not arrive in time and there are frequent stock-outs. By ensuring adequate inventory, an internal employee who is seemingly playing a support role, actually helps the front-line employee to deliver services smoothly and promptly to external employees.

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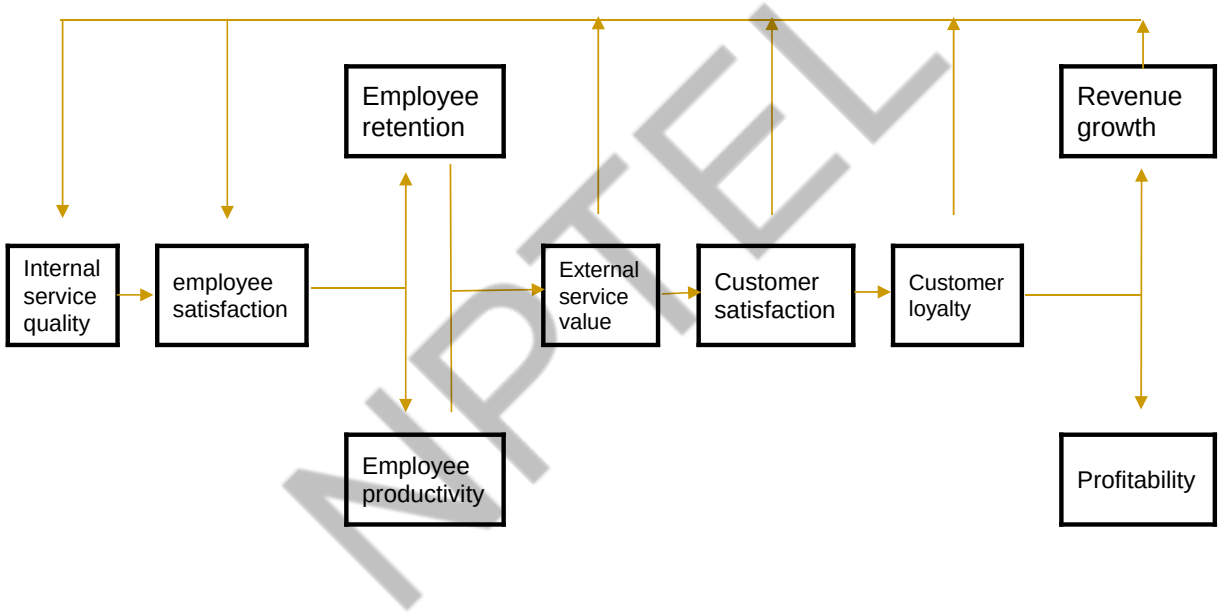
b. *Provide supportive technology and equipment*: Supportive equipment can help employees deliver services that are more responsive to customer needs. For instance, giving mobile phones to employees can have multiple benefits, they can be contacted by the company whey necessary and customers can contact them beyond standard service hours. This gives customers 24 x 7 access to service personnel which can be of much benefit to customers as well as the company in saved overtime wages.

c. *Develop service oriented internal processes*: The service blueprint must be updated regularly with feedback from customers and customer contact service personnel in order to keep it customer oriented. At times old processes may have become redundant or inefficient. Such processes must be reengineered to eliminate non-value adding activities while incorporating activities that can be efficient and effective in delivering value to customers.

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4. Retain the best employees: Once a company hires, trains and develops her employees, it is important to retain them as employee turnover can hurt the company in more ways than one. Happy, trained and loyal service personnel are able to serve customers more effectively and efficiently, while bringing down costs and increasing revenues and profits. They are the vital link in the service profit chain, a concept (depicted in Figure 15.1) forwarded by Professors Heskett, Jones, Loveman, Sasser and Schlesinger in 1994.

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The Service Profit Chain

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Here are some strategies that can be employed to retain the best employees:

a.Include employees in the company's vision: This includes involving employees in formulating and/or driving the company's vision. This gives employees a sense of ownership of the company and they endeavour to drive the company to greater heights instead of looking for greener pastures for self aggrandisement.

b. *Treat employees as customers*: This includes supporting employees through their work as well as non-work lives so that they can work free of worries for the company and associate themselves with the improvement and growth of the company.

c. *Measure and reward strong service performance*: Employees can be rewarded based on the customer satisfaction scores. Customer can be asked about the services they actually received from various employees and the employees can be rewarded accordingly. Such incentives can keep employees interested in working for the company and her customers for mutual benefits.

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We have discussed the important role played by service personnel in this lesson. The 3rd P, i.e. people, has two components, the first component being service personnel and the second component being the customers who co-produce the service. We shall discuss customers education in the next lesson

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Lesson 22 Educating Customers

Customer Co-production of Services

Customer Participation Strategies

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As concluded in an earlier lesson, we would be discussing the role played by customers during service delivery. You will recall that services are produced by employees and consumed by customers simultaneously. Hence, customers must know the role that they would be expected to play at a particular service facility. They must be educated and trained, if necessary, to play appropriate roles at the service outlet, so that they can get the benefit of the service. Most customers learn their roles while growing up in life. However, they may not know the best role that they can play at a new service facility.

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Take the case of customers waiting to receive medicines at a hospital pharmacy. Ordinarily, customers would submit their request for medicines and wait anxiously at the deliver counter for their medicines. In case there are many people waiting for their medicines, each person has to stand for a long time to receive their medicines. Few chairs might be placed near the counter for the patients to wait, but they might not consider being seated, rather they would stand anxiously around the counter to check that their request receives due priority, other people do not get their medicines out of turn, and the pharmacy employees do not delay delivering their medicines out of plain laziness. This situation used to take place at a hospital pharmacy and is commonly encountered in most hospital pharmacies.

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Why don’t the customers choose to sit down rather than stand anxiously? One reason is that they are not advised to do so. When they are advised to be seated through appropriate posters, and when they perceive that pharmacy employees strive to fulfil their medicine requests as early as possible, the customers would relax and wait patiently while being seated, instead of crowding around the delivery counter. That would enhance customer satisfaction as they would be sitting patiently instead of standing anxiously. In this case, appropriate communication and employee training would help deliver a better experience to the customers. In this way, education and training can be helpful for customers to receive their services in a better way and customers would be more satisfied in this manner. Hence, customer education is an important aspect of superior service delivery. This aspect has been discussed in the following paragraphs.

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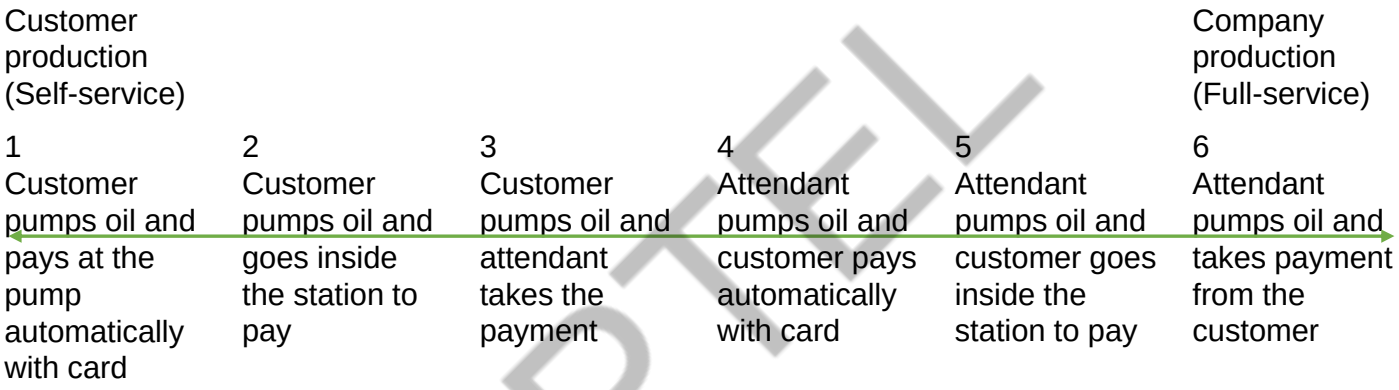
As discussed earlier, customers get more involved in service production as compared to products, as service production and consumption takes place simultaneously. Research studies indicate that customers are usually more satisfied with the outcome of the service when they are allowed to take responsibility for co-producing the service outcome, and take credit for themselves, when the outcome is better than expected while blaming themselves when the outcome is worse than expected.

Although some customers do not like to participate in co-producing a service and expect full-service from the service provider and pay for the same, others might actually enjoy producing a good amount of service themselves, particularly when it adds value to them. For instance, many customers having access to the Internet find it both enjoyable and beneficial to do their banking and ticketing jobs from their computer and rarely visit the service providers' offices for those services. You must have noted that there can be several segments of customers along the co-production continuum, as identified by Meuter and Bitner in 1998. The co-production continuum is depicted in Figure 16.1 showing 6 customer segments based on their readiness to co-produce the service.

Some segments would demand full-services, others part services and finally some would enjoy complete self-services. What should the company's orientation be in the above case? We can easily figure that out, provided we have learnt the right marketing orientation by now. A customer oriented company would give each customer segment exactly what the segment desires and price them for the services offered in each case. That would keep the customers most satisfied as they would be receiving what they want. Simple, isn't it?

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Customer Co-production of Services



Customer Co-Production Continuum

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We have introduced and discussed the issue of customer co-production of services in this lesson. We will discuss various customer participation strategies in the next lesson.

Customer Participation Strategies

1. Define Customer Jobs
2. Educate, train and reward customers
3. Manage customer mix for compatibility

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Once we come to know the participation preferences of our target cusomer segment, we can employ various customer participation strategies as discussed in the following paragraphs.

1. **Define Customer Jobs**: Customer participation should not be left to the fancies of the customer, otherwise quality, productivity and customer perception and satisfaction with the service are likely to be affected adversely. Accordingly, customer roles must be carefully designed into the process of service delivery. Customer roles can include helping oneself as in the case of Ginger Hotels, or helping others as in the case of Alcoholics Anonymous, where members help and support each other. Customers can also be recruited to promote the company in return for incentives. For instance, companies can allow free passes to customers on their anniversary to the disco and requested to bring some of their friends along for free. The company now gains additional customers from this exercise. Similar exercises of customer referrals can be rewarded, with two fold gains: the company gains new customers and customers remain attached to the company while remembering the pleasant experience associated with earning the rewards.

Once the roles are ascertained, the benefits to the customer and the company are ascertained. Saving precious time and avoiding the perils of waiting in a queue are the benefits that customers would generally receive from co-producing a service. At this stage, the company can also ascertain what portion of the benefits in terms of the saved wages, etc., can it pass on to the customers.

2. **Educate, train and reward customers**: Now the company has to educate and train the customers to perform their roles effectively and efficiently. As mentioned earlier, this step is extremely important for ensuring optimum productivity, quality and satisfaction of the customers. The customer script is prepared at this stage and the mode of training the customer is chalked out. Appropriate codes of conduct related to smoking, arrival time, etc. are also established for the customers and the communication is planned such that customers are able to accept and abide by them. For instance, when the State Bank of India launched ATM services, its personnel went out with elderly customers to show them how they could operate the ATM while apprising them the benefits and rewards of using the facility. Help-line numbers are also given, so that customers can seek help if they failed their self-service for some reason. This process can reduce consumer anxiety and give them a sense of comfort, security, confidence and control over the processes. This would make their participation novel, interesting and satisfying over and above the benefits they are to receive as a result of co-producing the service.

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3. **Manage customer mix for compatibility**: When different segments of customers are to receive our services they have to be managed for compatibility. The easiest method is to physically separate the segments and design the servicescape keeping their tastes in view. Another method is to call different segments at different time periods convenient for the segments. Even the service personnel can be chosen to match the personality characteristics of the customer segment with that of the service provider. Compatibility management can become particularly difficult when several customers have to share the same facility in close proximity with each other as in a bus or airplane. In such cases it is useful to formulate the codes of conduct for the customers. Training them to be sensitive to others' needs can help customers in receiving a smooth service experience.

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Lesson 23 Managing Service Delivery Channels

Managing the Retail Location

Managing the Quality of Electronic Channel

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To start with, we can deliver services to our customers through our company outlets. We can also use electronic channels to deliver information based services like distant education and tax advice. However, in order to grow our business, we would like to take the help of other collaborators to distribute our services. We may like to take the help of agents to sell our services (like ticketing), brokers to bring prospects (i.e. potential customers) to our business and franchisees to provide our brand of services to customers.

We would always prefer company owned outlets as we can control the format and the quality, have first-hand knowledge of changing customer requirements and develop improved or new services, know our customers and maintain close relationship with them. The location of our retail outlet is an important decision, which we are going to elaborate in a subsequent section.

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Once a winning concept and format are crystallized over a period of time, we may like to allow a franchisee to make investments and take the risk of delivering our brand of services to new markets, while we can earn the license fees from our franchisee. However, we have to manage the challenges of operating through a franchisee, which includes lack of control over quality and employee motivation, ambiguity over roles, highly publicized conflicts with the franchisee and lack of first-hand knowledge of customers and their changing requirements.

Once the franchisee settles down to operate the business, he has to maintain the quality and format of the service, send his employees for periodic training and development, and take part in promotion exercises to acquire and retain customers. Usually, conflicts arise regarding the payment of license fees and encroachment upon his territory by other franchisees of the same brand. We shall discuss strategies for effective conflict resolution in a subsequent section.

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Agents and brokers can help our business as they are in better contact with local markets than we can. For instance, large numbers of taxi operators can double up as brokers for bringing customers to a hotel. Similarly, a large number of agents can sell our services at outlets close to customers at a fraction of the cost that we would otherwise encounter, if we were to access and sell the services through our own personnel. However, the disadvantages are that the agents and brokers usually work for our competition too, and we have to strive hard to provide differential value at reasonable prices to our customers.

Internet channels are the cheapest mode of service delivery, provided the customer segment has access to the Internet. It is also beneficial for our customers as it saves time, energy and resources by cutting down on travel and increases convenience and flexibility for the customer. However, we have to then contend with low first-hand interaction with the customer, although we can receive quick customer feedback and the customer can access all our competitors available over the Internet. Moreover, the electronic delivery channel would conflict with the interests of agents, brokers and franchisees and decisions have to be taken to be fair to all businesses at the same time. The other concern over electronic delivery channels is the maintenance of electronic service quality, which we shall discuss in a subsequent section. Let us now turn our attention to the management of channel conflict.

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Managing the Retail Location

The decision regarding the location of our service outlets is important because that would determine the number of customers visiting our outlet and the cost of property and transportation of personnel and goods. Our service outlet would be located at a site in an area within a city and we have to decide about all the above locations.

The decision about the city is made by considering the population, their demand for our services and their purchasing power. The decision about the area is made by considering the attraction that various business districts hold for shopping customers, the nature of competition existing in the area, the direction of spread of the city, zoning regulations and the availability of access roads, visibility of the site and parking. A business district may be central, secondary or neighbourhood type. Rents are fairly high at central business districts and getting proper parking space may be an issue. A secondary business district would have a smaller trade area, i.e. the population that could be served would be smaller. However, it would not have the disadvantages of the central business district. The neighbourhood business district can support only small business that can cater to its neighbourhood.

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Managing the Retail Location

Besides being in a business district, our outlet could be a freestanding or isolated outlet like a petrol station or a part of a shopping centre that is managed as a single property. While an isolated outlet has no competition around, we have to invest in advertising to get customers out of their homes to visit our outlet. With rising fuel costs, customers may not ordinarily like to travel long distances for a single service. Shopping centres have a modern management and outlook and could be particularly suitable if our service is aligned with modern day trends and customers who are trendy.

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Deciding the Retail Location

Professors Nakanishi and Cooper wrote in 2007 that the Multiplicative Competitive Interaction (MCI) model can be used to calculate the probability that a consumer would choose an object with certain values of several attributes of the object using a formula that followed from the Luce choice axiom introduced by Professor Duncan R. Luce in 1959. This model takes care of various criteria that consumers may use to choose in purchasing services from the particular outlet all combined into an MCI coefficient or attractiveness index for the outlet. These criteria would include the distance that consumers have to cover to reach the proposed outlet, and its attractiveness as reflected in its physical and brand image, perceived service quality, price, and other features sought by customers depending on the type of the service.

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Deciding the Retail Location

The above model can be used to pinpoint the location of a new service facility taking into consideration existing outlets of the same brand and competitive brands after analysing various uncertain scenarios that are likely to take place during the planning period of say, 15 years in the future. The outlet location with the maximum estimated market share and revenue is revealed by the model. Once the service outlet is located, the scenario under which it was located may turn out to be incorrect leading to a blunder. In order to take care of this situation, Professor Tammy Drezner has shown in 2009 how the minimax regret model can be used to pinpoint a location so that minimum loss is suffered under the non-development of the assumed scenarios.

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Managing the Quality of Electronic Channel

According to Professor A. Parasuraman, e-Service quality is the extent to which a website facilitates efficient and effective shopping, purchasing and delivery of products and services. The dimensions of e-Service Quality have been grouped under two heads, i.e. core dimensions and recovery dimensions, by Professors Parasuraman, Zeithaml and Malhotra in 2005. The core and recovery dimensions follow.

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Managing the Quality of Electronic Channel

Core dimensions of e-service quality:

- Efficiency: This includes the ease and speed of accessing and using the website.
- Fulfilment: The extent to which the site's promises about delivery are fulfilled.
- System availability: Correct technical functionality of the web-site.
- Privacy: The degree to which the site is safe and protects customer information.

Recovery dimensions during failure:

- Responsiveness: Effective handling of problems and returns through the site.
- Compensation: The degree to which the site compensates customers for problems.
- Contact: The availability of assistance through telephone and online representatives.

Superior websites are user-friendly, technically sophisticated and have an alternate channel to assist customers when they face a problem.

In this lesson we have discussed the role of collaborators like agents, brokers and franchisees in the delivery of services. Strategies for managing inter-channel conflict and the quality of electronic delivery channels have been discussed. We will discuss the issues related to managing demand and capacity in the next lesson.

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Lesson 24 Managing Channel Conflict

Causes of Channel Conflict

Strategies for Collaboration

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Causes of Channel Conflict

1. Goal conflict
2. Channel ambiguity
3. Control of quality and consistency
4. Tension between empowerment and control

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Causes of Channel Conflict

In order to be able to manage channel conflict, we must first understand the likely causes of channel conflict as discussed in the following paragraphs.

The likely causes of channel conflict are as follows:

1. **Goal conflict**: While the principal's strategy might be to penetrate the market at low margins and high volumes, channel members might be trying to skim the market at high margins and low volumes. The conflict would be regarding who has the right to set the goal and who should follow it.

2. **Channel ambiguity**: If the principal has not paid enough attention to the details, there might be ambiguity as to who pays for the franchisee's advertisement and promotion, their training and development, marketing research, etc.

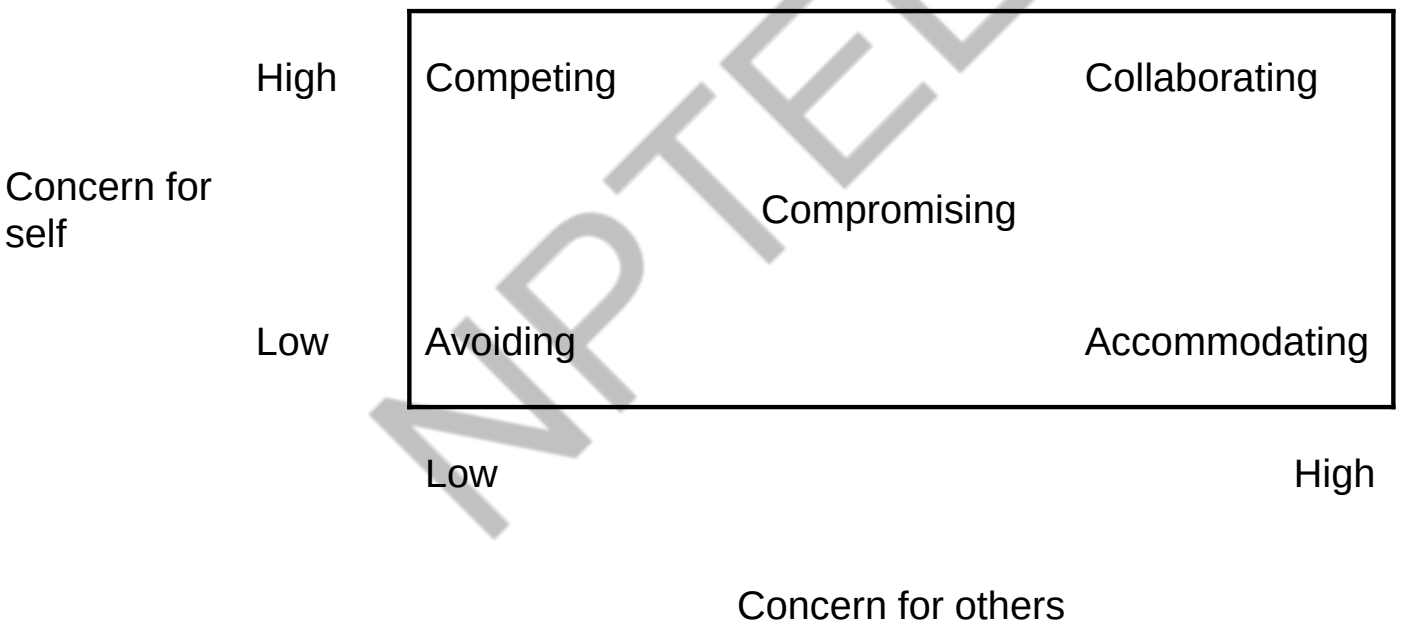
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3. **Control of quality and consistency**: The intermediaries might choose to use their own ideas in freely running their franchisee business and might find the stringent specifications subject to periodic measurement, review, reward and punishment by the principal to be an infringement on their freedom and get frustrated and angry about the same, leading to development of conflicting behaviour.

4. **Tension between empowerment and control**: Should the principal tightly control the activities of the franchisee to maintain quality and consistency, or, should they empower them so that they can understand and buy into the principals' specifications and deploy them of their own volition in their enterprises while suggesting any innovations and improvements to the principal?

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The fundamental basis of any conflict is excessive concern over the fulfilment of own goals with disregard to the fulfilment of the others' goals. Based on these two parameters several conflict handling attitudes can be formed as depicted in figure below:



Conflict Handling Attitudes

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So, which intention should the conflicting parties have? If they aim for their own welfare while disregarding others, they would compete with each other while their customers would stand to benefit and their businesses would suffer. On the other hand, if they care for their own welfare and the welfare of the other party at the same time, they can create win-win situations where both can collaborate peacefully for delivering value and making profits. A compromise leaves both parties part happy and part sad. While collaborating, the collaborator is considered as a partner in the business.

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Strategies for Collaboration

1. Alignment of goals
2. Consultation, cooperation and cooptation
3. Assistance

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Strategies for Collaboration

1. **Alignment of goals**: The principal and his collaborators can align themselves to the same business goals based on marketing research and then stick to it. Collaborators can understand that quality, consistency and productivity can be managed only when these are measured. Accordingly, measurement must be made part of the agreement with collaborators. However, actions following the measurement must be undertaken with an attitude of assisting collaborators to reach the benchmarks instead of punishing them for honest mistakes and non-performance. Likewise, incentives and awards can go a long way in helping collaborators attain high service standards consistent with the principal company.

2. **Consultation, cooperation and co-optation**: They must take all decisions, as far as possible in consultation with the collaborators so that all parties buy into the jointly evolved decision and work towards the same. This can eliminate lots of ambiguity and conflict at the same time. The parties can have representatives sitting on each others' boards.

3. **Assistance**: As the captain of the business, the principal must invest in carrying out marketing research, advertisement and promotions and assisting his franchisee with the resources they need to carry out the business process consistently. For instance, transportation companies give ticketing software to their agents for smooth functioning of the businesses.

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Lesson 25 Managing Demand and Capacity - I

Optimum and Maximum use of Capacity

Capacity Constraints

Understanding Demand Patterns

Strategies for Matching Capacity and Demand

Strategies for Adjusting Capacity to Match Demand

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We have discussed the location of the service facility and the quality of electronic channels of service delivery in an earlier lesson. In this lesson, we will discuss another aspect of service delivery, i.e. how service businesses have to match the demand for their services with the capacity.

You must have noticed that there is heavy demand in a restaurant during lunch or dinner hours, while it is relatively free of customers during other times. As there is a constraint on the capacity of the restaurant, the restaurant can serve a limited number of customers at any point in time. If more customers arrive at the restaurant during the rush hours or 'peak period' they have to wait for the service or they have to leave the restaurant and take their business elsewhere. Waiting might cause some discomfort to the customer. On the other hand, the restaurant loses business, if customers have to leave due to the capacity constraint.

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At the same time, there are few customers during ‘lean periods’. This means that there are more servers than required to serve the small number of customers who turn up during the lean period and the service business is wasting its resources due to idling.

This phenomenon of mismatch between service demand and capacity occurs due to the perishable and simultaneous characteristics of services. You might be aware of some methods restaurants use to circumvent the above problems. Some restaurants like McDonald’s use ‘Happy Hours’ during lean periods during which McDonald’s provides discounts to its customers. Other restaurants use ‘floating staff’ who serve customers during peak periods and do other work during lean periods.

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Optimum and Maximum Use of Capacity

There is a difference between optimal use of capacity versus maximum use of capacity. Optimal usage ensures that all resources are being used productively to deliver the desired quality while maximum use may require that resources be strained to serve more customers than that can be served at the desired level of quality. Obviously, it is recommended that a service business should make optimal use of its capacity instead of making maximum use of its capacity. Service businesses must understand and codify the optimum capacity of its human resources and other physical facilities in order to be consistently delivering the promised level of service quality.

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Capacity Constraints

Service capacity is fixed for many firms. Depending on the type of service, time, labour, equipment, facilities or a combination of these can be a constraint. For example, time is a constraint for legal and medical services, labour is a constraint for restaurant services, equipment is a constraint for a fitness centre and facilities are a constraint for a school or college.

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Understanding Demand Patterns

We can chart out the periodic and random demand fluctuations and try to understand their causes. This can help us devise strategies towards matching demand and capacity. WE can chart periodic demand hourly, daily, weekly, monthly or yearly. For instance, restaurants will have daily demand fluctuations while retail stores will face yearly demand fluctuations. Similarly there can be random demand fluctuations due to factors like the weather, which can affect demand for restaurant seats. Similarly, demand from different segments can fluctuate. For instance, a bank might face predictable service demand from its business customers but unpredictable demand from its individual customers.

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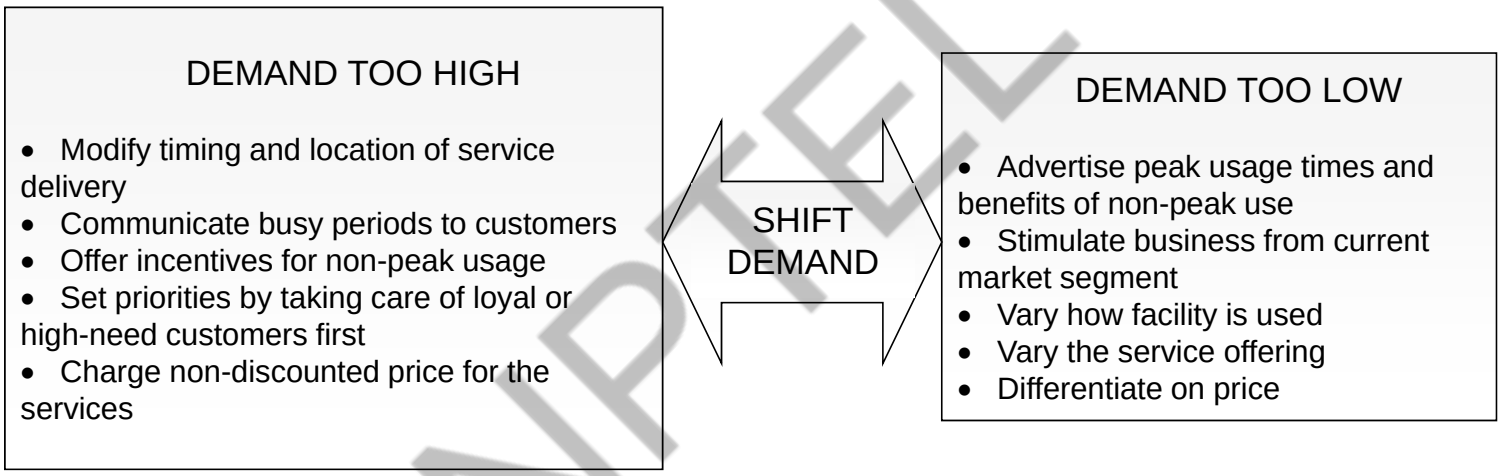
Strategies for matching Capacity and Demand

When service businesses have clear understanding of their capacity constraints and the source and periodicity of their demand fluctuations, they can closely match their capacity to their demand. An example of such match for a restaurant business has been given earlier in this lesson.

There are two generic strategies of matching capacity with demand. The first is to smooth the demand fluctuations by shifting parts of peak demand to lean periods as in the case of 'Happy Hours' by McDonald's in order to match the capacity. The second strategy is the match the excess capacity with the demand peaks and troughs as in the case of using multi-skilled staff who can serve customers during peak periods and do other work during lean periods, as given in the example earlier. Various tactics that can be used in relation to the above two generic strategies are discussed in the following sections.

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Strategies for Matching Capacity and Demand



Shifting Demand to Match Capacity

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When the demand is too high as compared to the capacity various tactics can be used to reduce the demand during peak periods as illustrated in Figure 18.5.1 and discussed below.

Communicate with Customers: An approach to shifting demand when it is too high is to let customers know the periods of high demand. Customers can be requested to visit the facility at periods of low demand.

Modify Timing and Location of Service Delivery: Longer operating hours suiting the requirements of customers can be a method of shifting demand, Moreover, locating facilities like banks and theatres to supermarkets or hypermarkets can also help in smoothing demand for these facilities.

Offer Incentives for Non-peak Usage: Incentives can be offered for beginning of season or end of season usage.

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Set Priorities: Service providers can priorities service delivery to the most lucrative needy customers thereby making other customers wait for their turn during non-peak hours.

Charge Full Price: Service providers can charge full price for customers who require the use of services during peak periods.

When the demand is too low as compared to the capacity of the service provider, the demand can be increased using a variety of tactics as discussed below.

Stimulate Business from Current Market Segments: Service providers like tourists can advertise their services during dull periods to enhance demand during dull periods.

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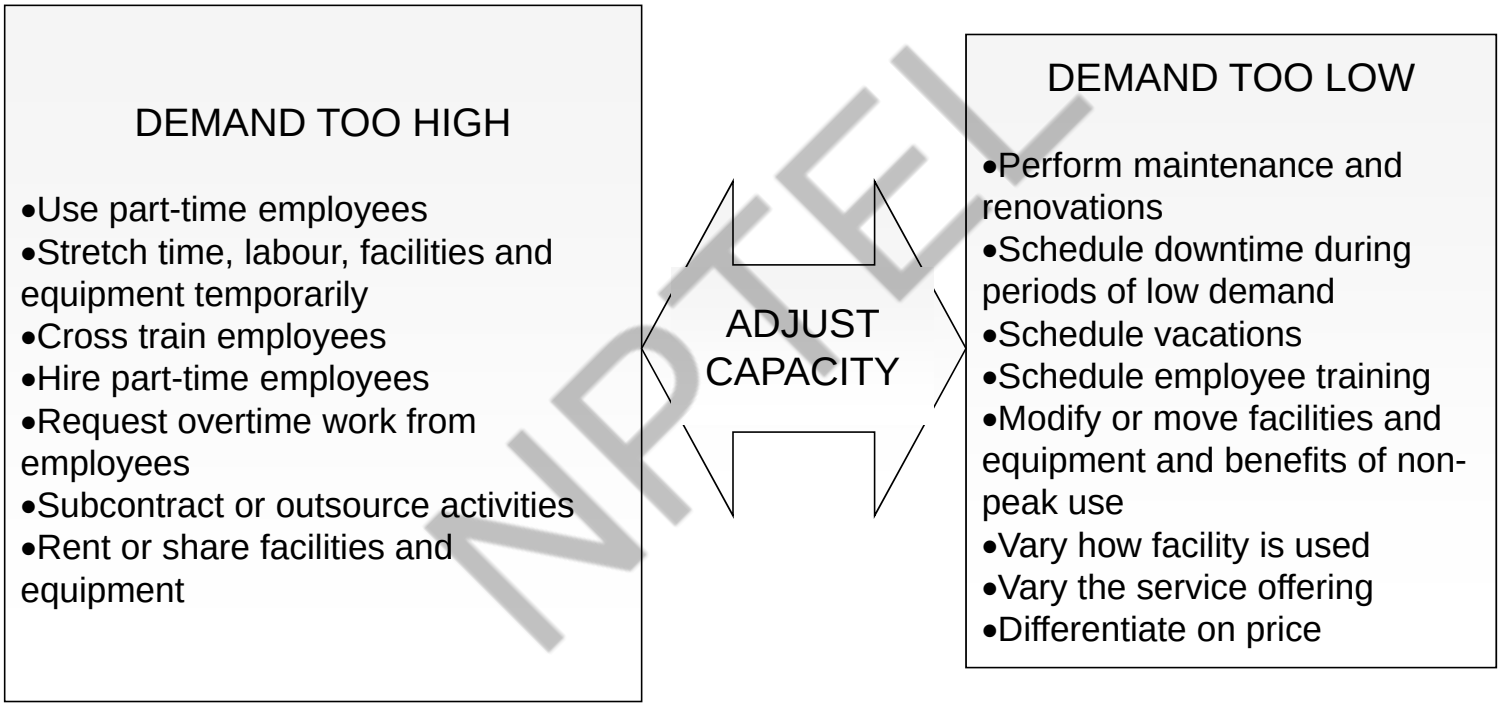
Provide Facility for Alternative Uses: Service providers like provide their facilities during lean periods for alternative uses. For example, movie theatres can rent out their facilities for business conventions during dull periods.

Vary the Service Offering: Service providers can vary how the service is offered during peak periods to smooth the demand. When theatres are packed, people may not venture out to buy eatables fearing that the movie would start while they are negotiating long queues. In such cases, the theatre can make provision of eatables inside the theatre and increase demand.

Differentiate on Price: Service providers can provide their services at low prices during lean periods to whip up demand and at high prices during peak periods to lower demand for their services.

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Strategies for Adjusting Capacity to Match Demand



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Shifting Demand to Match Capacity

The service capacity can be temporarily adjusted to match the demand as illustrated in Figure 18.5.2. When the demand is too high as compared to the capacity, the capacity can be temporarily stretched as discussed below. It must however be kept in mind that quality of the service remains within acceptable limits while the capacity is stretched.

Stretch Time Temporarily: Accountants can temporarily offer their services during extended periods near the end of the tax season to handle higher demand during those times.

Stretch Labour Temporarily: Frontline employees are asked to serve more customers during peak times than during longer or lean periods. However, people must be provided enough refreshments so that continuous stretch in labour does not affect their health adversely.

Stretch Facilities Temporarily: Chairs and tables can be increased temporarily within a facility like a restaurant to serve more customers during peak periods.

Stretch Equipment Temporarily: Computers, tour busses etc. can be temporarily increased during peak periods to handle peak demand.

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The capacity of the service provider can be reduced when the demand for services is too low. Tactics for doing this is discussed below.

Use Part-Time Employees: Use part-time employees who work during peak periods and leave when not needed during lean periods.

Cross-Train Employees: Train employees to be multi-skilled so that they can move to providing some services during peak periods and come back to their own service during normal hours.

Outsource: Companies can outsource their work during times when the demand exceeds capacity.

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Rent or Share Facilities of Equipment: A church can share its facilities with a preschool during weekdays, while the church can use the facility during weekends.

Schedule Downtime during Periods of Low Demand: The service provider can schedule repair, maintenance and renovations during off-peak periods. For instance, a college can repair its furniture during the vacations.

Modify or Move Facilities and Equipment: Hotels can use a temporary partition to create two rooms from one during peak periods. Airplane seats can be reconfigured to vary the number of seats in different classes in the plane to adjust capacity to the demand.

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Lesson 26 Managing Demand and Capacity - II

Yield Management

Waiting Line Strategies

NPTEL

Yield Management

As you might have understood by now, there can be demand-capacity mismatches faced by a service business. One way to balance capacity utilisation, pricing, market segmentation and financial returns is yield or revenue management. This method tries to maximise the yield, where

Yield = Actual revenue/Potential revenue

The potential revenue is the product of full capacity and the maximum price that can be charged per unit capacity. However, the actual revenue is the product of the actual capacity that could be rented out a certain price(s).

This concept can be clarified with the following example:

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Yield Management

Example:

Consider a movie theatre with 250 seats, where one seat can be sold at a maximum price of INR 200.

However, when the theatre tries to sell the seats at INR 200 each, only 100 seats get sold while the rest of seats remain unsold. In this case,
Yield = Actual revenue/Potential revenue = 100 x 200 / 250 x 200 = 40%

Now, the theatre finds out that it can sell all its seats at INR 70. In that case,
Yield = 250 x 75 / 250 x 200 = 37.5%

Now let us try to sell 100 seats at Rs. 200 each and the remaining 150 seats at a discounted rate of INR 75 per seat. In that case,
Yield = (100 x 200 + 150 x 75) / 250 x 200 = 62.5%

You can now understand how the yield could be increased beyond 40% by letting some seats out at the maximum price and some other seats at a discounted price to a segment of customers who were unwilling to pay the maximum price of a seat. In this way, the application of yield management concept allows us to balance the capacity utilisation, price, segmentation and the yield from the service business.

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Waiting Line Strategies

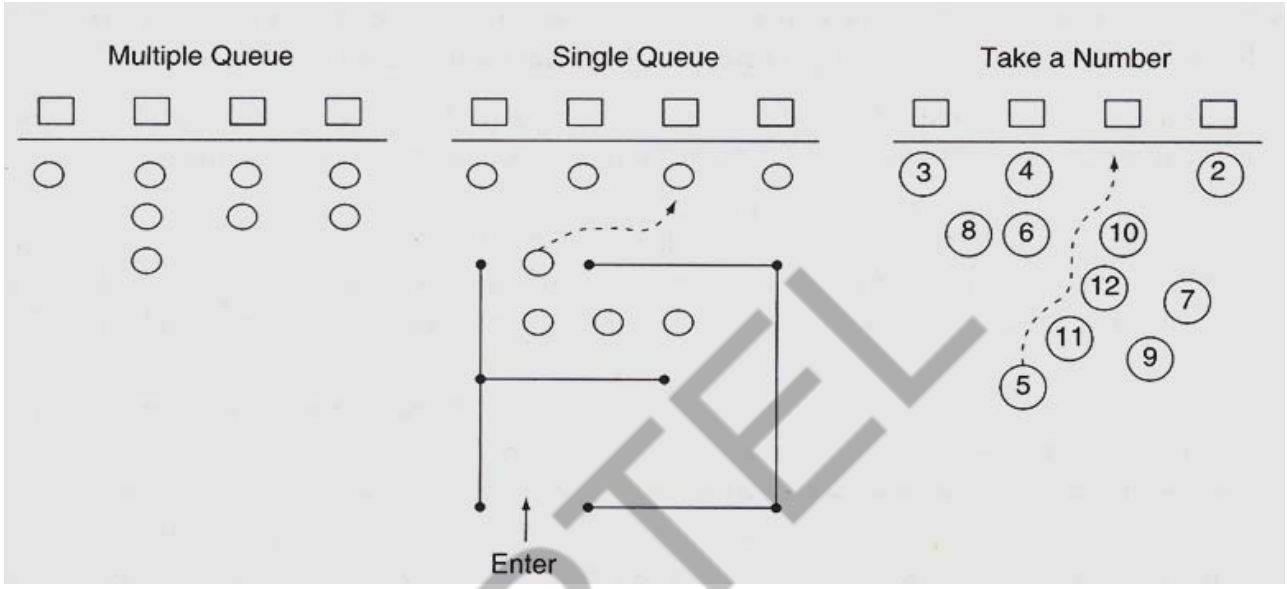
Bielen and Demoulin wrote in 2007 that customers are dissatisfied when they have to wait for service delivery, Moreover, your business may lose customer if their wait becomes long and intolerable. You can use four strategies when you have to deal with customer waiting. These strategies are discussed in the following paragraphs.

Employ Operational Logic

If customer waits are common, the first step is to analyse whether the operational logic of the service system is making customers wait more than necessary. For instance, Zeithaml and colleagues have written in their book entitled “Services Marketing” that when a bank found that its customers long queues, it developed a computer-based customer information system to allow tellers to answer questions more quickly, implemented an electronic queuing system, hired “peak time” tellers, expanded its hours and provided customers with alternative delivery channels.

When queuing is inevitable 3 types of waiting line configurations can be used as depicted in Figure 18.1 below.

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Waiting Line Configurations

Source: J. A. Fitzsimmons and M. J. Fitasimmons, Service Management, 5th ed. (New York: Irwin/McGraw-Hill, 2006)

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Research by Zhou and Soman published in 2003 suggests that the probability of a customer continuing to wait in a queue varies directly as the length of the queue behind that customer.

Employ a Reservation Process

You might already be knowing about a reservation process in a train for instance. When a service provider has a doubt that a flight will have to leave with less than full capacity due to last minute cancellations or no show, they can resort to overbooking. In case of overbooking, the overbooked passenger knows is overbook status and can be paid a compensation if the s(he) cannot be provided a seat in the flight.

Differentiate waiting customers: The usual “queue discipline” is first come, first served. However, some customers can be served before others using different modes of differentiation. These include:

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a. Importance of the customer – customers who do more business with the service provider are more important to the business and can be served using a different queue.

b. Urgency of the job – Emergency patients get attention before others do

c. Duration of the service transactions – relatively shorter transactions are served before longer ones

d. Premium price – customers willing to pay premium price are served before others.

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Make waiting pleasurable or at least tolerable: In 1985 David Maister wrote a classic article entitled the “They Psychology of Waiting Lines” which proposed several principles about waiting, each of which has implications for how organisations can make waiting more pleasurable or at least tolerable.

The principles are as follows:

- Unoccupied time feels longer than occupied time, so involve customers in co-creating the service while waiting
- Pre-process waits feel longer that in process waits
- Remove customer worries like whether the other line is going to move faster
- Uncertain waits are longer than know finite waits. When customers do not know how long they have to wait, they are more anxiety and dissatisfied as compared to when they know the length of time they have to wait.
- Unexplained waits are longer than explained waits
- Unfair waits are longer than equitable waits
- The more valuable the service, longer the customer is willing to wait
- Solo waits feel longer than group waits

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We have discussed strategies for matching supply and demand and the concept of yield management. We have also discussed various waiting line strategies, including the principles of making waiting pleasurable or at least tolerable. In the next lesson we will discuss the 5th P related to service delivery, i.e. the management of the physical evidence related with services.

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Lesson 27 Designing the Physical Evidence

What is Physical Evidence of Service Quality?

Roles played by Physical Environment

Relationship between Physical Environment and the Service Consumer

Design and Maintenance of Physical Facilities

NPTEL

What is Physical Evidence of Service Quality?

Servicescape: It includes (i) facility exteriors like exterior design, signage, parking, landscape and the surrounding environment, and (ii) facility interiors like interior design, equipment, signage, layout and air quality and temperature.

Other tangibles: It includes business cards, stationery, billing statements, reports, employee dress, uniforms, brochures, web pages and the virtual servicescape.

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Roles played by Physical Environment

1. Package
2. Facilitator
3. Socialiser
4. Differentiator

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Roles played by the Physical Evidence

The physical environment affects customers and employees, i.e. anybody who uses it. It can play various roles as discussed in the following sections:

1. Package: The physical evidence of a service plays a role similar to that of product packaging, it wraps the service and communicates its characteristics to the customer. A clean, safe servicescape conveys the image of a superior quality service to the customers and makes them feel proud of being associated with the service, i.e., it enhances the image benefits received by the customer.

2. Facilitator: A hindrance-free layout of the servicescape can enhance employee performance and customer satisfaction. Physical evidence like comfortable chairs in the seating area matches the requirements of customers thereby enhancing the perception of the quality of service in their minds.

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Roles played by the Physical Evidence

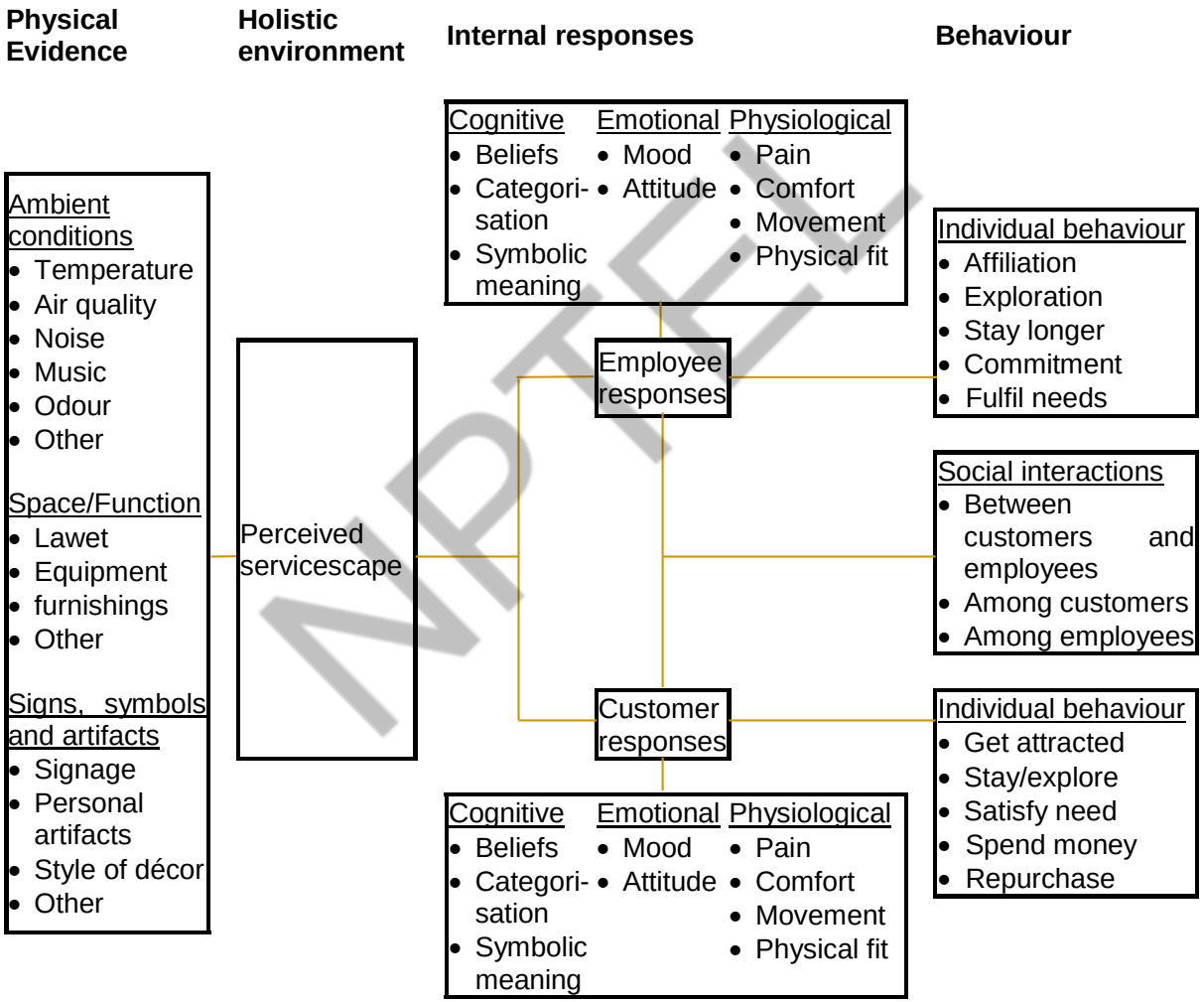
3. Socialiser: The servicescape helps customers and employees socialize and interact with each other and among themselves as services are mainly delivered through interactions during the moments of truth. The physical evidence also sets the mood for the service, a cheerful mood at entertainment services, a professional mood around offices and calm, relaxing ambience in healthcare establishments.

4. Differentiator: The physical evidence can help to differentiate and position a service for a particular segment of customers when designed according to their tastes and preferences including what they are willing to pay for. For instance, the physical evidence for a high-priced upper class area would be enhanced and differentiated from a low-priced lower class area in any service setting or among similar services.

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Relationship between Physical Evidence and Service Consumer

Professor Mary J. Bitner introduced a framework for understanding environment-user relationships in service organisations in 1992. The framework is depicted in the figure below:



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The objective of our service business is to attract customers and ensure that they are able to satisfy their needs while enjoying the service experience. They would like to spend their money if they perceive that they have received net benefit from our company. If they are satisfied with the service, they would repurchase our services and refer our services to others.

Our employees would mainly serve the customer. It is important that they feel comfortable at our servicescape. This would help them feel like staying till they complete their duty and do additional innovation for the benefit of the customers and our organisation in the long term.

As we know very well by now, services are primarily delivered through interactions between and among employees and customers.

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In order that the above desirable behaviour can take place effectively and efficiently, it is important that they receive the right cues from the environment that can elicit the right internal responses within customers and employees. The responses would be of three types, cognitive, emotional and physiological. The right environment would give them desirable cues. For instance, a clean and organized office would convey a sense of efficiency to customers and employees alike. High quality, working equipment would give assurance to customers that their problems would be flawlessly satisfied at the service outlet. Similarly, the availability of efficient working equipment gives service providers the opportunity for doing a good job of their service. The physical evidence, like presence and placement of chairs gives meaning to the space and indicates the category or segment of customers who are likely to receive the service in those surroundings. These are the cognitive responses of the physical evidence of service.

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Lighting, music, décor, air temperature and freshness make up the ambience of the servicescape which is aided by sparkling surroundings and equipment. This gives a positive mood and attitude to customers and service providers. On the other hand, a poorly-lit, damp servicescape quickly conveys a negative attitude of the service provider and elicits negative emotional response from the customers.

Above cognitions and emotions give rise to physiological responses like pain or comfort. The placement of physical facilities gives them direction for movement and rest. On the whole, customers and employees feel fit and comfortable at the service facility. These responses give employees an opportunity to provide flawless service to customers that they can be proud of. Similarly, customers are able to negotiate their way in the service facility and have their needs satisfied in the enabling atmosphere.

Hence, it is clear that the appropriate physical evidence, consistent with the service concept and the brand image, elicits positive cognitions, emotions and physiological responses from customers and service providers. This enables the production and consumption of services thereby leading to fulfilment of customers' and organisations' goals.

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Design and Maintenance of Physical Facilities

We have understood by now that physical evidence is an important aspect of our service, which cannot be ignored. Accordingly, we have to employ architects, interior designers and merchandise designers to design physical features that are consistent with our service concept and conveys the value, form and function, outcome and the nature of experience that customers are to receive from the servicescape. More importantly, they must match the preferences of our customers, yet provide slightly more than what our customer segment would have ordinarily expected from the facility. You may have noted how various elements of the physical evidence of Jet Airways are blue in colour while those are red in colour for Kingfisher Airlines. These elements are consistent with the logo and masthead and reflect the value and nature of experience that each airline has promised to deliver. The physical evidence should have elements of surprise, joy, interest and captivation inbuilt in them, in order to be perceived to be slightly beyond the expectations of the customers and delight them.

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Design and Maintenance of Physical Facilities

Elements of the physical evidence, particularly the servicescape, are costly and cannot be redone again and again without making large outlays. Hence it has to be executed correctly the first time itself.

Every bit of the physical environment that is likely to affect employees, customers and visitors must be identified in the service blueprint. Alternative designs for these facilities must be evaluated and the right one must be executed with care. The opinion of customer representative, service personnel, service managers, stockholders, collaborators and visitors must be taken and a consensus arrived at while selecting an appropriate design.

This procedure will also help the service providers and their collaborators to get involved and invest interest and time in the development of the facility while feeling a sense of ownership for the same. Care must be taken to involve as many of the above people as possible in decisions related to the smallest details of the servicescape, so that the very best is obtained without requirements for later replacement and rework.

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Design and Maintenance of Physical Facilities

Once the service is in operation, much attention must be given to the maintenance of the facility in order to keep it spick and span and in working order.

All unused, non-working and damaged objects should be removed without delay and replaced with new components.

We must remember that visitors to our facility will quickly get used to the physical evidence in our service facility. In order to maintain their interest in the company and to give them a feel of a renewing firm, the servicescape should be modernised and updated beyond the expectations of customers.

It is a challenge to implement what customers could be suggesting later on, before they can expect it. This can keep our customers interested in our organisation and patronise the same. Interesting elements of the servicescape can become a matter of special attraction and customers would speak about it to others while intentionally or unintentionally promoting the firm and its services to them.

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Lesson 28 Managing Integrated Marketing Communications – I

Need for Integrated Marketing Communications

Planning Integrated Marketing Communications

NPTEL

Every bit of the service, beginning with advertisements about the service, the physical evidence of the service in the servicescape, the behaviour, attitude and interactions with the service employees and the post-service communications with customers, communicate the characteristics of the service to the customers. Above means are different forms of communication with the customers, and together, they form part of integrated marketing communications. The service marketer must be careful that every bit of the communication is consistent with the service concept including the value, form, function and the outcome of the service that is received by the customer. Consistent communications help to give a complete picture of the service to customers and differentiates the service brand from competitive offerings.

In this lesson we will discuss the need for integrated marketing communications and how integrated marketing communications can be planned.

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Need for Integrated Marketing Communications

Coordinated and integrated marketing communications (IMC) are required so that customers receive the same communication from all departments of the business which match the service concept and its actual delivery.

This will create the right expectations about the service in their minds, which would be later matched during the delivery. This will keep customers satisfied with the feeling that the service is reliable because they did receive what they were promised or communicated before purchasing the service.

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Need for Integrated Marketing Communications

It is important that customers and prospects receive consistent communications about the service from various service personnel and the physical evidences of the company. Otherwise, communication gap is likely to take place as customers will receive a service inconsistent with what was promised or communicated before they received the service. There are four reasons why such a gap might form:

1. Puffery: The company over-promises its delivery based on what competitors might be offering, raises customer expectations and then fails to meet the promise.

2. Customer education failure: Customers are not educated about the role they have to play in the service process. For instance, customers may expect full-service in a self-service hotel if they are not educated properly.

NPTEL

Need for Integrated Marketing Communications

3. **Encounter communication failure**: Service personnel fail to communicate adequately to customers regarding what they are expected to do. At times, medical dispensaries fail to advise patients the interval at which they are supposed to take a dose of medicine.

4. **Inconsistent physical evidence**: As discussed in an earlier lesson, physical evidence might be inconsistent with the service concept and fail to communicate the concept to the customers, thereby creating inappropriate expectations in their minds.

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Planning Integrated Marketing Communications

Integrated marketing communications can be planned using the 6 Ms model consisting of the market, mission, message, media, money and measurement. The 6 Ms are discussed in the following paragraphs.

1. **Market**: This implies identification of the target audience eligible for receiving the communication.

2. **Mission**: This implies identification of the objective that is to be fulfilled by communicating to the target audience identified above.

3. **Message**: This implies the content to be communicated to the target audience to meet the communication objectives.

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4. **Media**: This involves identification of the media consumption habits of the target audience so that they can be reached by using appropriate media. Suppose the target media do not own television sets, they must be reached with radio, billboards or posters. Similarly, if the target audience displays a fair interest in watching sports on television, they can be reached with the message through popular television sports channels, like Star Sports, ESPN, etc..

5. **Money**: This implies the budget set aside for the communication programme. Although most companies set aside 2 to 3 % of their budget for communication purposes, it is best to work out the above 4 Ms and estimate the cost of the communication planned for the year.

6. **Measurement**: This involves finding out how much of the communication investment was effective in attaining the objectives and adjusting the communication programme for greater effectiveness.

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The first three 'M's, i.e. 'Market', Mission' and 'Message' can be determined by using the Hierarchy of Effects Model (HEM) introduced by Professors Lavidge and Steiner in 1961. The model is given in the table below.

Stage	Buyer state	Message type
Cognitive stage	1. Awareness	Simple broadcast, jingles
	2. Knowledge	Unique Benefits
Affective stage	3. Liking	Emotional message
	4. Preference	Comparative message
	5. Conviction	Induce trial
Behavioural stage	6. Purchase	Reinforcement message

Hierarchy of Effects Model

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Based on HEM, prospects and customers in the trade area are surveyed to ascertain the percentage of population in each of the 6 buyer states. The gaps in the company's communication and the target audience can now be easily identified. This takes care of the market aspect of the 6 Ms model. Now the objective of the next communication can be identified. The objective can be now written in the creative brief as "To create positive feelings about the brand among 40% and preference among 25% of the target audience." Now the second aspect of the 6 Ms model, i.e. mission, is clear.

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The marketing department of the company hands over the creative brief to the advertising agency who can design the message. The message may have a rational content giving the unique benefits that customers would receive from the service in comparison to alternative ways of fulfilling their needs. On the other hand, the message may contain emotional appeals to customers in order to induce or enhance positive feelings for the service and reinforce their feelings if they have already experienced the service. This would take care of the third M, i.e. the message.

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The agency now recommends the media to be used for communicating the message depending on the preferences of the target segment and the effectiveness in delivering the message depending upon the characteristics of the service and the message. For instance, a magazine would be preferred for an emotional message to a select audience, while television could be used for a larger audience. Advantages and disadvantages for various types of media are given in Table below. This takes care of the 4th M of the communication model i.e. the Media.

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Advantages and Disadvantages of Different types of Media

Medium	Advantages	Disadvantages
Newspapers	High coverage	Short life, poor production quality
Television	Appealing to senses, high attention and reach	High cost
Direct mail	Select audience, personalization, no competition	High cost
Radio	Mass broadcast, select audience, low cost	Audio presentation only
Magazines	High quality production, selectivity, credibility and prestige	Long ad purchase lead time
Outdoor	Repeat exposure, low cost, low competition	Limited to travellers on the way
Yellow pages	Wide reach, low cost, effective database for customers	High competition, creative limitation
Newsletters	High selectivity, interactive opportunity, low cost	Costs might run away
Brochures	Full control of presentation, interactive	Costs might run away
Telephone	Opportunity to give personal touch	High cost
Internet	Interactive, low cost	Only computer users

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The 5th M of the 6Ms model is the money or the budget. There are 4 major ways to arrive at a budget of the advertising programme. They are

1. Availability of funds: This means the management with the help of the marketing, finance and other departments finalize the budget that could be made available for spending on the communications programme
2. Percentage of sales method: This method includes arriving at a budget as a percentage of the estimated sales or previous year's sales.
3. Comparative parity method: In this method the budget allocated by competitors is studied and a proportion of the company's sales is earmarked as the budget for the communication programme.
4. Objective and task method: In this method, the objective of the promotion programme is chalked out. The reach and frequency required is calculated to arrive at the gross rating point (GRP) required for an effective promotion programme. Then it is planned to spend the money required for purchasing the required GRP.

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Once the communication has been released, the performance of the communication must be measured against the objectives according to the 6th M of the communication model. The measurement can be undertaken through marketing research. This will help to take corrective action to address any shortfall in the communication programme.

In this lesson, we have discussed the need for integrated marketing communication and how it should be planned. In the next lesson we will discuss the communication mix and how to make the right communication to the customers about your service delivery.

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Lesson 29 Managing Integrated Marketing Communications – II

The Communication Mix

Making the Right Communication

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The Communication Mix

We can communicate about our services to our prospects and customers using the marketing communication mix. The marketing communication mix consists of (i) advertising, (ii) sales promotion, (iii) events and experiences, (iv) public relations and publicity, (v) direct marketing, and, (vi) personal selling. Let us discuss each element of the mix in the following sections.

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i. Advertising is a paid form of indirect communication which can be done using mass media like newspapers, newspaper inserts, magazines, television, radio, billboards, cinema, internet, mobile phones and mobile broadcasting. Advertising can reach a large population in a short time although it is very costly. Advertising can be effective when the right message is given to the target audience.

ii. Sales promotion includes window display, coupons, discounts, sale, money off, rebate, happy hours, free gifts, buy-one-get-one-free deals, club memberships and frequency points. While advertisement entices prospects towards the service, sales promotion give incentives for purchasing and trying the service. Sales promotion primarily allows some kind of financial saving for the customer, although some customers might find redeeming deals as an interesting and ‘smart’ buy.

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iii. Events include trade shows, road shows, inaugural functions, etc. that are meant to enhance sales during lean periods. **Experiences** include inviting guests for a visit to the service facility and experiencing its services with the aim of creating awareness and positive associations in the minds of the visitor and positive word-of-mouth about the service.

iv. Public relations include the communication of company spokesperson to the public particularly about the resolution of erstwhile problems with the service or to notify them about investments made towards upgrading the service. Publicity includes third party communication, including editorial communication about the service for public consumption. Usually, media reporters are invited to a press conference of the company and are made to visit the facility and give literature about the service business. The reporters then write about the company in the media. The audience believes this type of communication the most, as a third party, not directly involved with the business, communicates about the business and is likely to be communicating the true scenario.

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v. **Direct marketing** includes sending telephone, mail or email communication including catalogues, to the target audience about the service business and requesting them to act on it by replying back with some information, subscription, etc. Direct marketing also includes infomercials on television where the service is explained at great length and prospects are requested to dial telephone numbers appearing on the screen to make a purchase. This is a personal form of communication which can be very effective if it is sent to the right people.

vi. **Personal selling** involves visiting the prospective customers and selling the services. We may be familiar with the personal sales activity undertaken by insurance agents. Although costly, personal selling can be very effective if the salesperson is able to communicate the benefits of the service business for the prospective customers.

NPTEL

Making the Right Communication

We have discussed about service quality gap 4 which deals with the mismatch of what was communicated to the customer and the actual delivery of the service. This goal of the service business should be to deliver services at a level equal to or more than the promises that are communicated to the customer. This can be achieved through the following four strategies

1. Management of Service Promises
2. Manage customer expectations
3. Improve customer expectations
4. Manage internal marketing communication

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Management of Service Promises

1.Management of Service Promises: As discussed earlier, inadequate service promises can be caused either due to puffery or the inability of the organisation to fulfill the promises. Again, the inability of the organisation may be due to lack of preparation or because different arms of the organisation are unclear about what has been promised by another arm and how the same can be fulfilled by the service personnel. In 1999, Professor Banwari Mittal has broken down the intangible characteristic of services into five aspects and forwarded a communication strategy to address each aspect as follows:

a. Services have an incorporeal existence without physical form. Accordingly, the service outcome must be clearly exhibited with the right associations.

b. Service benefits are abstract, like fun, security, health, etc. Hence, the communication must demonstrate how people are actually benefiting from the service.

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c. Services are described generally by saying ‘wonderful service’, ‘complete customer satisfaction’, etc. without pinpointing the specifics. The service performance episode showing service personnel at work must be exhibited along with parts of the system documentation and performance statistics including certificates of recognition, etc.

d. Services cannot be searched and previewed before purchase. Performance documentation and customer testimonials should be exhibited. Service sampling can be offered to prospective customers through trial, visit to the service facility, etc. For instance, some educational institutes let future students attend a class session to preview the same.

e. Services suffer from mental impalpability, i.e. they are a set of complex procedures. This requires communication about the service process and past stories about what the firm did for her customers.

NPTEL

In addition to the above, effective advertising would include narrating stories about the service and creating a clear mental picture of the service process and outcome. Physical evidence and artefacts can be associated with the service. As service employees are the face of the service, they must be featured in communication messages. At the same time, service customers should also be featured along with testimonials of their experience with the service. Service communication can be humorous and witty, thereby becoming a subject of people's discussion.

It is important to make consistent communication using various elements of the communication mix, such that all messages are consistent with each other. Finally, service communication should make promises that the service business is ready to fulfil and all employees of the company know what has been promised and what they have to do to fulfil the same. One way to make meaningful promises to customers is to offer service guarantees and fulfil them. This would help customers perceive our service business as fair, honest, trustworthy and enhance its credibility

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2. **Manage customer expectations**: Realistic communication builds up the right expectations in the mind of customers. In case, the service is going to deviate from its earlier promises, it can give choice to the customer such that the alternative chosen by the customer can be fulfilled. Service outcomes and their levels can be separated out and customers can be offered different service outcomes at different levels for various prices.

Hundreds of mobile phone service plans are an example of the above concept. When customers choose an alternative, they are clear about what they can expect from the service they are about to receive. At times, customers try to negotiate the price of a service to bare minimum levels. In those circumstances, service managers should communicate the unique benefits and value that the customer would derive from the service as compared to alternative ways of fulfilling the same need. Then he should indicate how the price is less that the value that the service business is delivering to the customer.

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3. Improve customer expectations: Customers must be educated about their role in the service business. They have to be given clear step-by-step guidance as to what they should be doing as part of the next step. Service providers must understand that if the customer fails to play his/her role in the service process, the service remains undelivered and unsold! Therefore, customer education must ensure that customers know and remember when and how to discharge their actions. Since customers dislike waiting, they can be taught about the benefits they can receive if they consume the service during 'happy hours'. The business must not assume that customers know about their role in the service process or any other information unique to the service delivery.

Next, customers must be communicated about service standards and guarantees that the business adheres to. It must also communicate to the customer when the service is over and communicate how the service has been delivered as per the standard and any guarantees about the permanence of the outcomes. This keeps customers updated regarding what to expect from the service business. The customer would also tell this to others and the word would spread by mouth, thereby creating wide knowledge about the delivery standards of the company.

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4. Manage internal marketing communications: As discussed earlier, it is important that all arms of the company are aware of marketing promises and initiatives that have to be fulfilled for customers. This requires real time communication, both vertically and horizontally.

Several companies work with the concept of creating zone-wise or product-wise contact person or account executive, who is the one-point contact for the customer. He/she elicits customer expectations and communicates the same to the relevant service personnel across the company, so that the service is delivered by a cross-functional team.

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In this lesson we have discussed the communication mix and how to make the right communication to the customers about the service delivery. Making the right promises and delivering slightly more that what was promised can close any gaps between promise and delivery thereby enhancing the credibility of the service organisation. In the next lesson we will discuss the 7th P of the services marketing mix, i.e. the price, which is the source of revenue from the services of the company.

NPTEL

Lesson 30 Pricing the Service

Pricing a New Service

Value Pricing

NPTEL

Pricing the Service

Till now we have learnt to design the 6 Ps of a service offering, i.e., the service product, the service process, the service personnel, the place or channels of service delivery, the physical evidence of the service and the promotions or communication about the service to its customers. The 6Ps add to the cost of the service being offered to customers. In this lesson we will discuss about pricing the services, the 7th P that brings in revenue to the service business.

Once we have designed and developed the service product and its delivery, we would have to decide how to price the service for earning revenue from it. Price setting consists of six steps as described in the following sections:

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1.Selecting the pricing objective: Two major objectives of pricing are market penetration or market skimming. In case it is easy for competitors to emulate our business, it is advisable to go for market penetration, which means increasing the market share. This involves selling the services at a price that most customers are willing to pay. On the other hand, if the service has lot of high-technology components and cannot be easily emulated by new competitors, the marketer can go for price skimming, that is selling the services at a high price and slowly bring down the prices as competitors emerge.

Businesses may also have a survival objective in the short run, i.e. they would like to earn the operating costs at the time being in order to establish the business firmly in the market, before raising prices later on. Another pricing objective could be price-quality leadership in which the marketer provides superior quality services at affordable prices which would be difficult for competitors to match.

NPTEL

2. Determining price elasticity of demand: At the next stage, the demand for the service at various price levels is elicited through customer surveys in which customers may be asked to choose price options at which they would be willing to purchase the service. A better way of pricing various levels of services is through a marketing research technique called conjoint analysis. As part of this analysis, customers are asked to rank several sets of services with different alternatives and price levels. Through statistical analysis of the data, the part worth of various options and prices are found out and the most-preferred service-price combination is identified. The price that customers are willing to pay, form the price ceiling, i.e. the company cannot offer its services at a price above the price ceiling.

NPTEL

3. Estimating costs: The cost of providing the service is estimated through a technique called activity based costing (ABC) in which the cost of performing various activities for delivering the service is calculated in order to arrive at the total cost of providing the service. The cost will form the price floor, i.e. the minimum price that should be requested from customers to make the business viable.

4. Analysing competitors' costs, prices and offers: The price charged by competitors for similar and alternative services are found out as these prices form the reference price with which customers are likely to compare the price of the new service. The benefits offered by the competitors and our company are also compared. Once it is ascertained that our service is superior to that of the competitors, the price of the service can be calculated as the cost of alternative services plus the additional value provided by extra benefits provided by our service. Thus, competitors' prices help to modulate the price of our services based on what the customers are accustomed to pay for similar services, or the cost of alternative ways of fulfilling their needs.

NPTEL

5. Selecting a pricing method: Based on the cost of delivery and competitive prices, several price points for the new service can be determined. Then the demand for each price point is established and the breakeven demand is calculated. Once, we are sure that a certain demand can be met; the price can be fixed for attracting that level of demand. It is now ascertained that the demand-price combination would be capable of achieving breakeven. The sale of services for the next three years is estimated and the profit is calculated. This will help us calculate the return on investment and to match the estimated return on investment with the returns expected in line with what the industry receives in general. It is checked that the returns are higher than the prevailing bank interest rate.

NPTEL

One special method of pricing is called target costing. In this method, the price that customers are willing to pay is ascertained from customer surveys and service delivery process is modified in order to ensure that the service can be delivered at a cost and price that will result in expected returns for the business.

An important method of pricing that is widely advocated is called value pricing. True economic value (TEV) is the sum of the price of the alternative means of satisfying the need and any cost savings in the hands of the customer, less, the cost of receiving the new service. Theoretically, the customer would gain even when he/she pays the value price for the new service compared to consuming the alternate service. However, the price is then modulated as per what customers are willing to pay for the service and is fixed at that level. This concept has been further elaborated next.

NPTEL

6. Selecting the final price: The final price is selected by keeping in mind that the price and other 'P's of the services marketing mix must be consistent with the service concept. Low-quality-high-price or high-quality-low-price services would be inconsistent whereas a price in tune with the quality of the service, the affordability and willingness of customers to pay the price, substantial demand at the price which can be easily fulfilled by the service provider, and, a price in tune with prices of competitive and comparable offerings would be perceived to be a consistent price. The price should be such that our target market is able to purchase the services, our collaborators can make a profit and our competitors can continue to offer their services to their target customers at their price points. It is important to ensure that the price of our service is consistent with the value it provides to customers. The concept of value pricing is elaborated in the following lesson.

We have discussed the issue of pricing a new service in this lesson. We will discusses one particular type of pricing called 'value pricing' in the next lesson.

NPTEL

In 1988, Professor Valerie A. Zeithaml published the four ways in which customers perceive value. These are:

1. Value is low price
2. Value is whatever he/she wants in a service
3. Value is the quality he gets for the price he pays
4. Value is what he gets for what he gives

These ways are discussed hence forth.

NPTEL

1. Value is low price. Customers would look out for the lowest price of a cleaning service, or a service offered on sale or discount, or ‘happy hours’ when the service can be availed at the lowest price. When telephone services were dear, customers used to wait for 9:00 PM to ring up as the price of the service would decrease substantially after that time.

2. Value is whatever he/she wants in a service. The customer would like to receive the best MBA degree, high quality medical services or best performance of a music concert. The customer would be willing to pay the price of a full service that would satisfy him. Customers would also like to pay a high price as the high price would be a signal of the quality and the prestige that the customer would receive as a result of purchasing the service.

NPTEL

3. Value is the quality he gets for the price he pays. This is the lowest price for a quality brand, i.e. affordable quality. As discussed earlier the customer is expected to pay the price equal to the true economic value (TEV) that he receives from the service. Benefits are offered at different levels based on the needs of different customer segments and are priced accordingly.

NPTEL

4. Value is what he gets for what he gives, like the amount of cleaning he gets for the price he pays. Price framing is to price the service at a level that is lower than reference competitive prices for the same set of benefits. Price bundling is a form of pricing in which parts of the service are individually priced, while bundles of those parts are available at a price that is less than the sum of individual prices. This kind of pricing gives a signal to the customer that he is getting what he needs at an attractive price. In complementary pricing, part of the price is payable at the time of purchase, and the other part is paid over time, like monthly or yearly subscriptions.

At times, loss-leader pricing can be done where the leading service is priced at a loss while other complementary services are priced higher to obtain revenue. Results based pricing is the fee or commission that the customer will pay depending on the result of the service. For instance, customers may be required to pay a lawyer a percentage of the costs that are awarded as a result of a law suit. Similarly, the client may have to pay brokerage charges for the sale of property as a percentage of the price at which the property gets sold. Such contingency pricing may state that a fixed price is to be paid with a guarantee of savings that would result from the provision of the service.

NPTEL

Lesson 31 Managing Customers

Retaining Current Customers

Customer Lifetime Value

NPTEL

Retaining Current Customers

A company gains from old loyal customers as they:

- purchase the services of the company repetitively,
- are cheaper to serve as they do not have to be educated for repeated service deliveries and play their roles accurately,
- are willing to pay a increased price for the same service as they are satisfied with it,
- purchase other services from the same company, and,
- refer the company to other people, who in-turn purchase from and add to the revenues of the company.

NPTEL

Retaining Current Customers

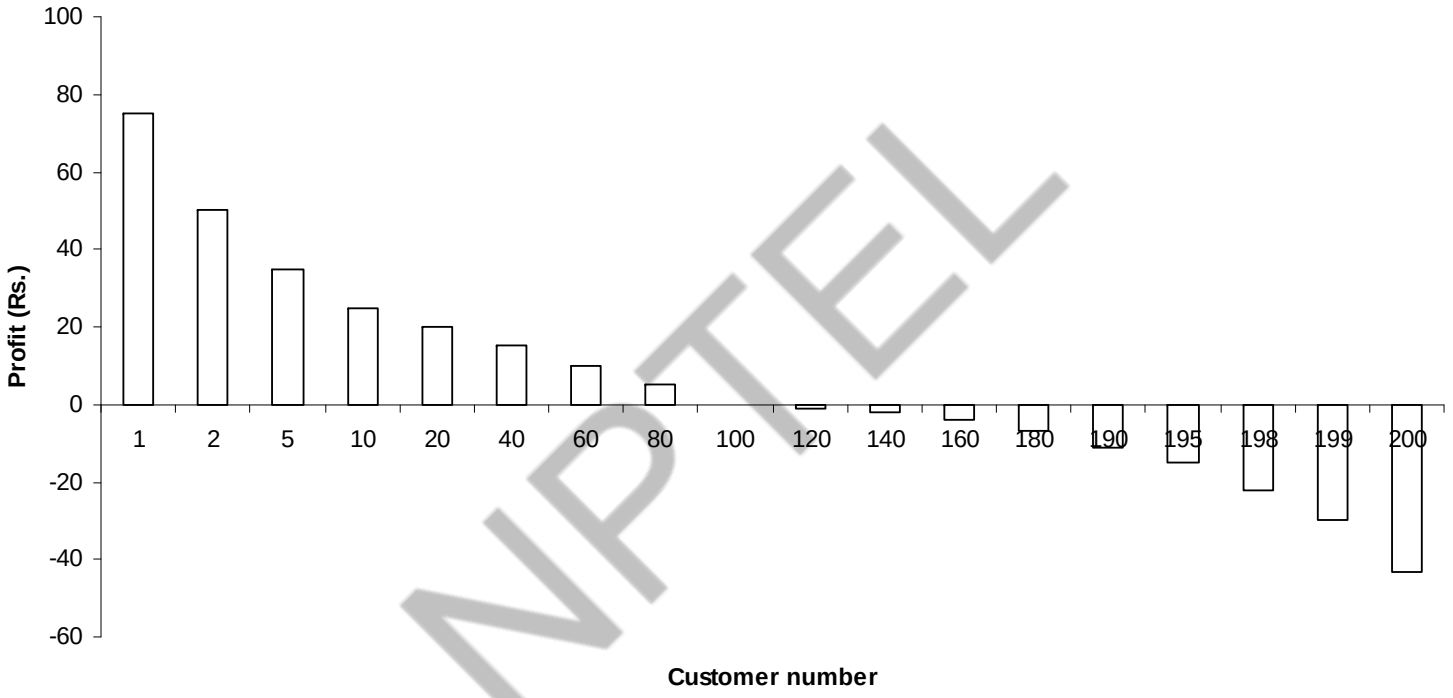
A customer can be retained when he/she becomes loyal to the company. A customer becomes loyal to the company when he/she is satisfied with the quality of service delivered by the company and receives true economic value (TEV) from the company. Professors Sunil Gupta and Valerie Zeithaml have written in 2006 that both customer satisfaction, and resulting customer retention, enhances financial performance of a firm. For instance 1% increase in the American Customer Satisfaction Index can lead to a $240 to $275 million improvement in firm value.

NPTEL

Customer Lifetime Value

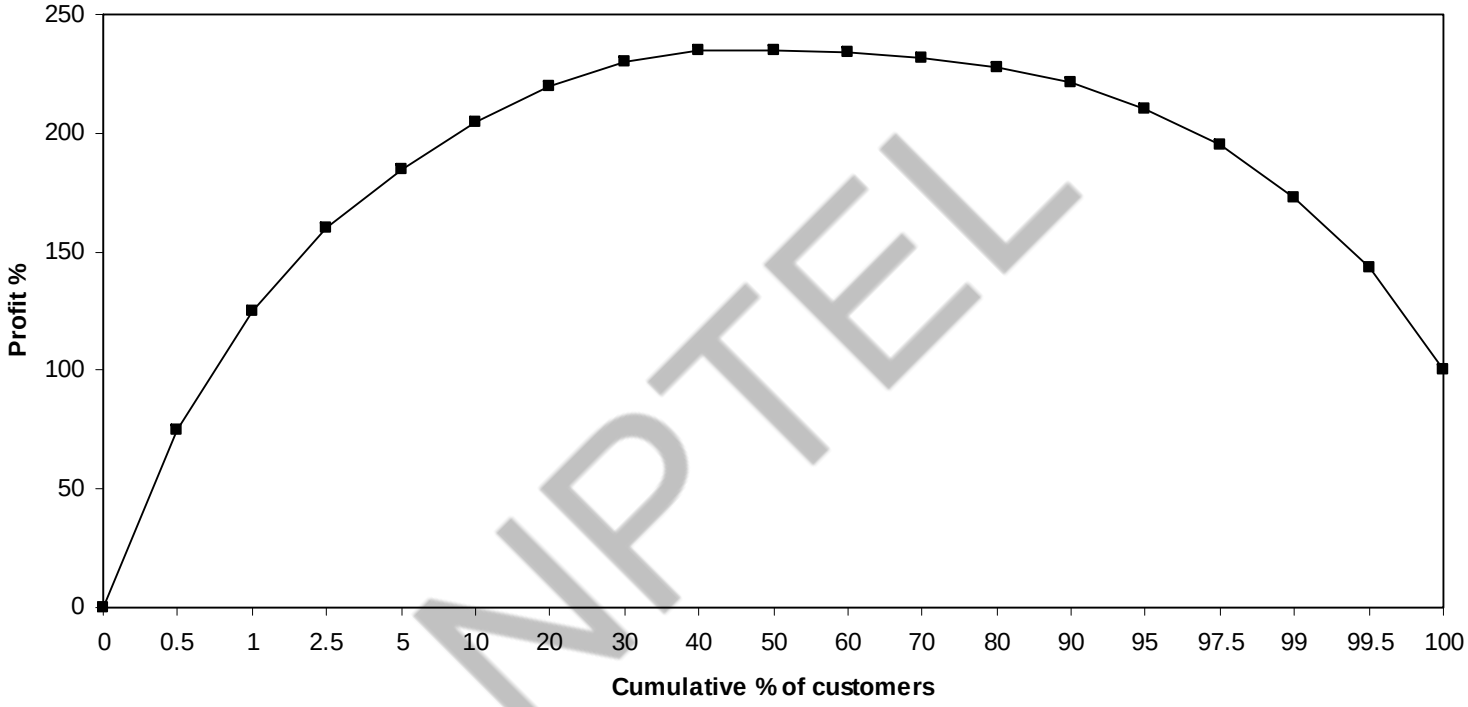
We may note that not all customers are profitable for a company. It has been found that the top 20% of the customers generate 220% of the profits while non-profitable customers eat away a lot of the generated profit as shown in the figures below. So, we would be interested in identifying our profitable customers and nurture them, while negotiating low-cost services or higher prices with non-profitable customers. In one company, researchers found that the single largest customers also accounted for the heaviest investments from the company to serve them and were therefore, eating into the company's profits. Company personnel then negotiated with their largest customer for higher prices while streamlining the services offered to the customer. We would then be wondering how we can calculate the value of a customer to our company. The model used to do that is called customer lifetime value (CLV) as described in the following section.

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Customer Profitability Ranked from Most to Least Profitable Customers



NPTEL

Whale Curve showing Customer Profitability

Customer Lifetime Value

Professors Sunil Gupta and Donald R. Lehman have shown in 2003 that the customer lifetime value can be calculated using the following formula:

CLV = mr/(1+i-r) where,
m is the constant margin received from the customer,
r is retention rate, i.e. the probability that the customer will make a repurchase, and
i is the prevailing interest rate

The margin and retention rates are calculated from an analysis of previous shopping data of the customers. It is clear from the above formula that the value of a customer retained with the company is directly proportional to the retention rate. Many research studies have found that making investment on customer retention is more important than investments on improving the margin or investing in customer acquisition, although this is dependent on the life cycle of the service industry. For instance, studies have found that it is five times more costly to acquire new customers than to retain current customers. Hence, it is important to retain current customers of a company and try to make them loyal to the company.

NPTEL

In this lesson we have discussed the issues of retaining customers and the method of measuring the lifetime value of a customer to a service business in order to retain the right customers. In case something goes wrong with the service delivered to a customer, the damages have to be corrected through a process called service recovery. The issue of service recovery is dealt with in the next lesson.

NPTEL

Lesson 32 Managing Service Recovery

Service Recovery

NPTEL

We have learnt about service quality and value delivery in earlier lessons. You must have noted that it is essential to deliver correct services to customers in order to satisfy and retain them. However, we may make mistakes in delivering the service, resulting in disgusted customers. In such a case, the service outcome has to be provided as early as possible so that customers do not leave our service and start purchasing from the competition. This process is called service recovery. It is elaborated in the following section.

NPTEL

Service Recovery

1. listen intently to the customer and understand the extent and repercussions of the error.
2. explain the reason for the problem and apologise for the hassle caused to the customer.
3. take responsibility for the problem and note down what the customer wants as a solution to the problem.
4. accommodate the customer by acceding to the request unless it is unreasonable.
5. give choices to the customer to fulfil his/her need and provide something extra to cover up for the inconvenience caused to the customer.

1. A customer complaint is an opportunity for improving the service and ensuring an error-free delivery in future.
2. Service personnel should not ignore the customer, keep him/her waiting and act as if nothing is wrong.
3. They should not blame the customer, leave him to fend for himself and downgrade him by recovering the services only partially.

A customer talks about a bad experience to about fifteen other people, while he/she talks about a good experience to about five other people.

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Service Recovery

- Our service personnel might require coping with problem customers who make unreasonable demands, once in a while.
- Service personnel must listen and try to accommodate the customer as far as possible.
- They should explain the policies and let go of the customer, if necessary.
- They should take care that the customers' behaviour is neither able to affect them personally nor affect other customers of the service.

In this lesson we have discussed the issue of service recovery. In the next lesson we shall discuss the issue of providing unconditional service guarantees to service customers.

NPTEL

Lesson 33 Providing Service Guarantees

Unconditional Service Guarantee

NPTEL

Unconditional Service Guarantee

Offering unconditional service guarantee ensures that customers are fully satisfied with what they receive from the service provider. Obviously, this forces the company to ensure that all the quality gaps mentioned earlier have been addressed, because, without that, the company would become liable to return money to the customer. Retail chains like Big Bazaar guarantee that if the customer finds the same product cheaper elsewhere, they would return the difference. Some educational institutes guarantee jobs within 90 days of completion of the course.

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Unconditional Service Guarantee

Here is an example of another form of service guarantee. One customer purchased a T-shirt from a store, took it to his residence, removed the tag and disposed it off along with all bills. The next day, he felt that the shirt would be somewhat short in size for his son, but he was reluctant to ask for a return as he had discarded all proof of purchase. However, when he requested to return the shirt for a bigger size, the purchased t-shirt was promptly taken back at the counter and the customer was requested to get another shirt of the right size. Needless to say, the customer was delighted with this service encounter and went about narrating the story to many others.

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Unconditional Service Guarantee

Many companies fear offering unconditional service guarantees, as they feel that customers might take advantage of the offer and cheat the company. Moreover, there might be several external conditions not under the control of the service provider. For instance, Dominos offers to deliver pizzas within 30 minutes, otherwise the pizza is free. However, they have to ensure that the customer location is such that traffic holdups do not affect their delivery and their delivery vehicles are in good shape.

NPTEL

Unconditional Service Guarantee

What should be the features of a good unconditional service guarantee? Well, it should be easily understood and unambiguous. Customer should understand what to expect, and employees should be sure of what to give when the guarantee is invoked. The guarantee should fully cover the service failure, be easy to invoke and collect and should be such that the customer will be fully satisfied from the outcome of the guarantee. How can the above features be ensured? If we feel that customers should be engaged in designing the guarantee, we are correct. Like other features of the service, the guarantee must also be designed with inputs from customers, employees, managers, owners and other stakeholders of the company. An unconditional service guarantee, keeps customers fully assured of the quality of services of the company thereby enhancing its brand image. Customers are even willing to pay a higher price for a guaranteed service than one which does not have such assurance attached with it.

NPTEL

Features of a good unconditional service guarantee

- Easily understood and unambiguous.
- Customer should understand what to expect
- Employees should be sure of what to give when the guarantee is invoked.
- The guarantee should fully cover the service failure
- Easy to invoke and collect and should be such that the customer will be fully satisfied from the outcome of the guarantee.

How can the above features be ensured?

- Customers should be engaged in designing the guarantee
- The guarantee must also be designed with inputs from customers, employees, managers, owners and other stakeholders of the company.

An unconditional service guarantee, keeps customers fully assured of the quality of services of the company thereby enhancing its brand image. Customers are even willing to pay a higher price for a guaranteed service than one which does not have such assurance attached with it.

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Lesson 34 Consumer Protection

Consumer Protection Act 1986

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Consumer Protection Act 1986

On 15th March, 1962, John F. Kennedy, former President of USA spoke for the first time in the US Senate about consumer rights. He proposed four consumer rights including right to safety, right to be informed, right to choose and right to be heard. 15th March is celebrated every year as the World Consumer Rights Day. India has recognised six consumer rights which are envisaged in the Consumer Protection Act, 1986.

NPTEL

Consumer Protection Act 1986

Rights of consumers in India are as follows:

- The right to be protected against the marketing of goods that are hazardous to life and property
- The right to be informed about the quality, quantity, potency, purity, standard and price of goods to protect the consumer against unfair trade practices
- The right to be assured, wherever possible, access to variety of goods at competitive prices
- The right to be heard and to be assured that the consumer' interests will receive the consideration at appropriate forums
- The right to seek redress against unfair trade practices or unscrupulous exploitation of consumers
- The right to consumer education

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Consumer Protection Act 1986

The scope of the act was expanded in 2002. The definition of service as given in Consumer Protection Act under Section 2(0) reads:

“service means service of any description which is made available to potential users (who are willing to pay for the service and includes (but not limited to), the provision of facilities in connection with banking, financing, insurance, transport, processing, supply of electrical or other energy, board or lodging or both (housing construction), entertainment, amusement or purveying or news or other information, but does not include the rendering of any service free of charge or under a contract of personal service.”

Free medical services are outside the purview of the Act.

Services delivered by a maid are under contract of personal service. The householder can turn away the maid at any time, so the householder is not purchasing the services of the maid who is an employee of the householder. Accordingly, the householder cannot complain about any deficiency in provision of service by the maid.

NPTEL

Consumer Protection Act 1986

However, the service delivered by a doctor to his patient is under a contract for personal service and hence the patient can complain and seek redress for defective service delivered by a doctor to a patient.

Canteen or transport services run by a firm exclusively for its employees are not for delivery to potential employees willing to pay for the service. Hence, such services are not under the purview of the Consumer Protection Act 1986.

When employees of an organisation decide to strike work, the organisation must insert advertisement in leading newspapers that a strike is imminent so that consumers of the organisation are not taken by surprise and can prepare themselves beforehand.

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Thank you!

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