

Chapter 2

SERVICES MARKETING- AN OVERVIEW

2.1 Services: The Concept

All industrial and economic activities are divided into three, namely, primary, secondary and tertiary. Primary activities include agriculture, fishing, forestry, mining etc. Secondary activities consist of manufacturing, processing, construction etc. Tertiary activities comprise of services, distribution etc. Services form a major part of economic activities and the world today is dominated by the service sector.

The service sector is enormously large and varied. It includes banking, transportation, insurance, communication, education, employment, healthcare, legal service, accounting, tourism, hospitality and information services. Some of the services are provided on a nonprofit basis, for example, education and healthcare, while others are provided on a commercial basis such as hotels, professional consultants, solicitors etc.

Defining a service is not an easy task and there is no single universally accepted definition of the term. An earlier view of the concept of service was that it was a mere benefit attached to a physical product. Now a major shift has taken place in the concept of service and the service industry at present has achieved its independence and growth quite apart from physical goods.

Hence service industries are fundamentally different from manufacturing industries.

In common parlance the term services means personal services like repairing, health service, legal services, counselling etc. Marketing experts view the problem in a different way. They feel that the contents of services are much wider. Services are deeds, acts or performances.¹ The complexity of definition of services increases when one realises that there are no pure services or pure tangible products.

“Any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to a physical product.”²

“Services are activities, benefits or satisfaction which are offered for sale, are provided in connection with sale of goods.”³

“Services can also be defined as action of organisation that maintains and improves the well being and functioning of people.”⁴

“A service is an activity which has some element of intangibility associated with it, which involves some interaction with customers or with

¹ Berry, L.L. "Service Marketing is Different," *Business*, Volume 30 - May-June 1980, pp.24-30.

² Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, Prentice-Hall of India, New Delhi, 1990, p. 467.

³ American Marketing Association: Committee on Definitions, *A Glossary of Marketing Terms*, Chicago, 1960.

⁴ Hasenfield, Y and Richard, A.E., *Human Services Organisations*, The University of Michigan Press, 1974, p. 1.

property in their possession, and does not result in a transfer of ownership. A change in condition may occur and production of service may or may not be closely associated with a physical product.”⁵

What these and other definitional approaches share in common is their emphasis on the essentially intangible nature of a service. Thus a service firm:

- offers an essentially intangible product(s);
- produces an output the units of which may be dissimilar in the same lot (heterogeneity);
- cannot store the unused (unsold) service;
- may often need engagement of customers in the production and delivery of the service;
- may leave the buying basket of customers as empty as it was before buying.

2.2 Services : Features

Services have some salient features, which necessitate a new vision, a distinct approach and a world class professional excellence to deal with the

⁵ Payne, Adrian, *The Essence of Services Marketing*, Prentice Hall of India, New Delhi, 1995, p.6.

various aspects of the services effectively and profitably.⁶ The service professionals who are not well aware of these features find it difficult to make creative decisions. It is against this background that the important features of services are analysed as follows for making appropriate managerial decisions.

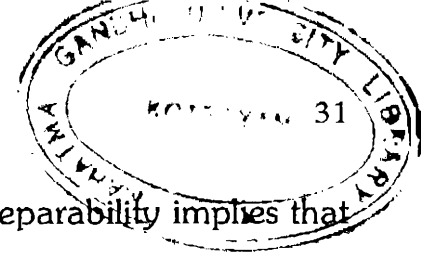
1. Intangibility

Services are intangible in that they do not have a physical shape. So a consumer cannot touch or see it but can derive the benefits after buying it. This intangibility makes the task of decision makers more complex. While motivating the prospects they cannot display the positive or negative aspects of services. The consumer also finds it difficult to measure service value and quality. To overcome this, consumers tend to look for evidence of quality and other attributes. They also consider physical evidence and qualifications or professional standing of the consultant. Services by nature are abstract. Therefore, services carry with them a combination of intangible perceptions and benefits. Thus it is right to mention that due to intangibility, the managing of services become much more complicated.

2. Inseparability

Services often cannot be separated from the person of the service provider. Moreover, some services must be created and dispensed simultaneously. For example, dentists create and dispense almost all their services at the

⁶ S.M. Jha, *Services Marketing*, Himalaya Publishing House, Mumbai, 2000, p.7



same time. From the marketing point of view, inseparability implies that direct sale is the only channel of distribution of services. This feature of services also limits the scale of operation of a service firm. The goods are produced at one point and then distributed by others at other points. In services, we find the selling processes contributing to its creation. Thus in the words of Donald Cowell, goods are produced, sold and then consumed, whereas services are sold and then produced and consumed.⁷

3. Heterogeneity

It is not possible for a service firm to standardise its service. Each unit of the service is somewhat different from the other units of the same service. For example, an airline does not provide the same quality of service on each journey. The primary reason for such inconsistency is the effort to satisfy the customer's need to the fullest. This requires the interaction of customers and service providers. They should do everything to ensure the consistent quality of the service.

4. Perishability

Services are highly perishable and they cannot be stored. In the context of services, if we fail to sell the services, it is lost forever. For example, a vacant seat in an aircraft or an unbooked room in a hotel etc. are opportunities lost forever. This makes it essential that decision-makers

⁷ "Cowell, Donald, W., *The Marketing of Services*; CAM Foundation and Institute of Marketing, William Heinemann Ltd., London, 1984.p.25.

should minimise the risk by utilising their professionalism. The strategies include peak load pricing, motivating non- peak period consumption etc.

5. Ownership

Lack of ownership is a basic feature of the service industry. A customer may only have access to or use of a facility. Payment is for the use, access or hire of the service. Thus the ownership is not affected in the process of selling the services.

6. Fluctuating Demand:

Generally the demand for services is fluctuating in nature. Demand for certain services that may be high during peak seasons may be low during off-seasons. Most service organisations have capacity constraints. So simultaneous attempt to achieve closer match between demand and supply is sought. The combination of perishability and fluctuating demand offers challenges to service company executives in planning, pricing and promotion of services.

Management experts would like to add some more features to services while distinguishing them from products. These are:

1. Lack of entry barriers:

Introduction of new changes in various services is not patentable i.e. the innovativeness of one firm can easily be adopted by another. Also,

services are not generally capital intensive, and thus entering a service sector is not at all difficult.

2. Minimum opportunities to achieve economies of scale:

Most services operate from multiple locations so that they can cater to the surrounding geographical area. This prevents the service provider from producing a service at one place as is done in the case of producing tangible goods. Thus opportunities of achieving economies of scale are difficult.

3. Customer Contact

The customer is very much a part of the service process. A service can be classified as high or low contact depending on the percentage of time the customer spends in the delivery system relative to the total service time. In high contact services the customer influences the timing of demand and the nature of service by direct participation in the process.

2.3 Classification of Services

There have been a number of approaches towards classification of services. The intention behind this classification is to provide service managers with a means of identifying other companies who, though operating in different types of services, share certain common characteristics. Lovelock classifies services based on five crucial factors. They are:

- Nature of the service act.
- The relationship of service organisation to customers.
- The extent of customization and judgement.
- The nature of supply and demand for the service
- The process of service delivery.⁸

A simple form of classification of services is into:

- A. Business and professional services.
- B. Non-business services

Business and professional services include banking, insurance, advertising, consulting, market information, budgeting, legal, medical, accounting etc.

Non-business services include leisure, entertainment, recreation, education, counselling etc.

Helen Woodruffe classifies services into the following five categories:⁹

1. End user

According to the end-user of services, it may be classified into:

⁸ Lovelock, C.H., "Classifying services to Gain Strategic Marketing Insights," *Journal of Marketing*, Vol.47, Summer,1983, pp.9-20.

⁹ Woodruffe, Helen, *Services Marketing*, Macmillan India Limited, New Delhi 110002.1999, pp 28-29.

- Consumer services- such as leisure, hairdressing, personal service
- Business services-advertising agencies, printing, accounting, consultancy
- Industrial services- plant maintenance, repair service, project management

2. Service tangibility

The degree of tangibility of a service can be used to classify services:

- Highly tangible services – car rentals, vending machines, telecommunications.
- Services linked to tangible goods - car service, repair of domestic appliances
- Highly intangible services - consultancy, legal service

3. People based services:

Services can be classified based on the extent of the consumer contact:

- People-based services –education, healthcare etc. where high contact is necessary.

- Equipment based services – only low customer contact is required for such services: car wash, cinema, and vending machines.

4. Expertise / Professionalism

On the basis of expertise and skills required, services may be classified into:

- Professional Services - legal, medical, accounting, and consultancy.
- Non-professional Services – day care, baby sitting.

5. Profit Orientation

The overall business orientation is a recognised means of classification:

- Commercial Services - banks, insurance, hotel and catering services.
- Non-commercial services – charities, public sector leisure facilities.

2.4 Marketing of Services

Service firms lagged behind manufacturing companies in the application of marketing principles till recently. Many service organisations were either small which consider marketing not necessary or costly or unethical. The service sector has been found contributing substantially to the development process of any economy. The developments in the service sector and mounting competition in this field have been forcing service-generating firms to apply

modern marketing principles. It is necessary to adopt marketing strategies by service firms not only for their survival and growth but also for satisfying the needs and expectations of their customers.

Marketing is a human activity directed at satisfying the needs and wants of consumers through exchange process. The British Institute of Marketing finds it as the management function which organises and directs all those activities involved in assessing and converting customer purchasing power into effective demand for a specific product or service and to achieve the profit motive in moving the product to the final customers or users. Marketing is essentially a customer-oriented activity where satisfaction of customers is the focal point.

The American Marketing Association defines marketing as the performance of business activities that direct the flow of goods and services from producer to consumer or user.¹⁰

“Marketing is a social and managerial process by which individuals and groups obtained what they need and want through creating and exchanging products and value with others”.¹¹

¹⁰ American Marketing Association Committee on Definitions, *A Glossary of Marketing Terms*, Chicago, 1960.

¹¹ Kotler, Philip and Armstrong, Gary, *Principles of Marketing*, Prentice Hall of India, New Delhi, 1996, p.6.

Kotler further adds “Marketing is getting the right goods and service to the right people, at the right places, at the right time and at the right price with the right communications and promotions”.¹²

“Marketing is not concerned solely with tangible goods, it also plays a similar role in connection with the distribution of services”.¹³

Felton views the marketing concept as “a corporate state of mind that insists on the integration and co-ordination of all marketing functions which, in turn, are welded with all other corporate functions for the basic objective of providing maximum long range corporate profits”.¹⁴

Service marketing is defined as the integrated system of business activities designed to plan, price, promote and distribute appropriate services for the benefit of existing and potential consumers to achieve organisational objectives. The perception of services marketing focuses on selling the services in the best interest of the customers.¹⁵ It is a systematic and coordinated effort of a service organisation to expand its market by delivering the best possible services. The objects of services marketing are the achievement of organisational goals like making profits, establishing leadership, long term

¹² Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, Prentice Hall of India, New Delhi, 1990, p.3.

¹³ Rathwell, J.M., *Marketing in the Service Sector*, Winthrop Publishers Inc. Cambridge, 1974.

¹⁴ Felton, A P, “Making the Marketing Concept Work”, *Harvard Business Review*, July-August, 1959, Source: *Marketing: A Managerial Introduction*, by J C Gandhi, Tata McGraw Hill Publishing Company Limited, New Delhi, 1991.

¹⁵ Jha, S.M., *Services Marketing*, Himalaya Publishing House, Mumbai, 2000, p.10.

survival and growth and the satisfaction of consumers by rendering excellent services.

The concept of services marketing covers the following aspects:

- selling services profitably to target consumers and prospects
- delivering maximum satisfaction to consumers of services; and
- positioning the service firm in the market.

Marketing is thus an integral part of service management. The managerial decisions are not found to be effective in the absence of a time bound implementation of marketing principles. Of late, customer satisfaction is found to be a focal point of the marketing decisions since the marketing process can help in offering the right services to the right persons at the right time. Marketing simplifies the process of transforming prospects into actual customers of services.

2.5 Need for Services Marketing

The concept of marketing was not given much attention by most of the service organisations hitherto. Some service organisations like educational institutions, hospitals etc. once had so much demand that they did not need marketing until recently. Still others (legal, medical and accounting practices) believed that it was unethical to use marketing.¹⁶

¹⁶ Kotler, Philip and Armstrong, Gary, *Principles of Marketing*, Prentice Hall of India, New Delhi, 1996, p. 663.

With the passage of time the service economy has gained momentum and has achieved growth far exceeding the growth of the industrial economy especially in the developed countries. Services marketing ideas and techniques have thus grown alongside the growth of the service economy. Like manufacturing businesses, service firms ultimately felt the need to use marketing principles to position themselves strongly in the chosen target markets. The multi-faceted developments in the service sector and in the mounting intensity of competition have been engineering a strong foundation for the application of modern marketing principles in the service organisations.

The following facts make it clear that the application of modern marketing principles by service generating organisations would pave avenues for qualitative and quantitative transformation:

1. Increase in the Disposable Income

The disposable income of the people has been found increasing in recent years. This trend is also visible in developing countries like India. The increase in income in turn leads to demand for a number of services and thereby, new opportunities are created in the service sector. The positive developments in the service sector open new doors for an increase in disposable income. The moment an increase in the disposable income is found, the process of demand generation gains a rapid momentum creating more opportunities for the development of services sector. The

intensity of competition is found at its peak and this necessitates application of marketing principles.

2. Increasing Specialisation

Organisations have now no option but to promote specialisation since this helps them to be cost effective. The firms prefer to engage specialists for almost all purposes. Experts and professionals like consultants; legal advisors, financial experts, technocrats etc. play a decisive role in managing an organisation. Greater specialisation in management requires the services of experts and consultants in almost all areas. It is right to mention that due to growing specialisation, service generating organisations would need a new culture influenced by corporate culture, and marketing practices can do a lot towards this end.

3. Changing Lifestyles

With the development of corporate culture and the emergence of a well-established services sector there would be a basic change in the lifestyles. The busy working environment and increased personal stress and strain would pave the way for development of innovative personal services like healthcare, fashion-designing, recreational centres, beauty parlours etc. The change in lifestyles creates new waves in the demand for specialised services and marketing can play a vital role in meeting the new aspirations of the consumers.

4. Professional Excellence

Corporate culture makes an advocacy in favour of performance-orientation. The development of human resources would be given greater importance by all organisations either producing goods or services. Professional excellence thus would get a new priority and the masses would be tempted to the professional education. Excellence and professionalism in knowledge require the development of world-class educational institutions for almost all disciplines. The services sector would be professionalised in which only the world-class human resources can get a place. This will lead to greater efficiency in service organisations. The application of marketing principles along with this professionalism will make it easier to achieve the corporate goals.

5. Information Explosion

The inventions and innovations in the field of communications have been found fuelling information explosion. The tremendous opportunities generated by communications would influence almost all the sectors especially service industries like entertainment, advertisement, fashion designs etc. It is in this context that it is essential to practice the modern marketing principles so that the marketing information system plays a positive role in improving the quality of decisions.

6. Sophistication in Market:

There is more sophistication in the modern market where consumer expectations would be greater and more complex in nature. There would be frequent changes in the hierarchy of needs and requirements of consumers that result in the changes in the nature of market in terms of products or services required for that market. These multi-dimensional changes in the market necessitate the application of modern marketing principles.

7. Increasing Governmental Activities:

The expanding governmental activities in almost all sectors of the economy would also make ways for the development of the service sector. The latest trends in the trade and cultural exchange policies, the global partnership etc. would pave the way for more profitable growth of service sector. This will also lead to more positive and sophisticated qualitative changes in the service sector which call for intensive use of innovative marketing principles.

2.6 Service Industries: The Marketing Response

Given the unique and distinguishing features of the service industry, researchers have offered different models for the marketing of services. In a service firm there are many variables which affect the service encounter. Services marketing requires not only external marketing but also internal

marketing and interactive marketing.¹⁷ The three types of marketing form a triangle model which is depicted in Fig. F1 below:

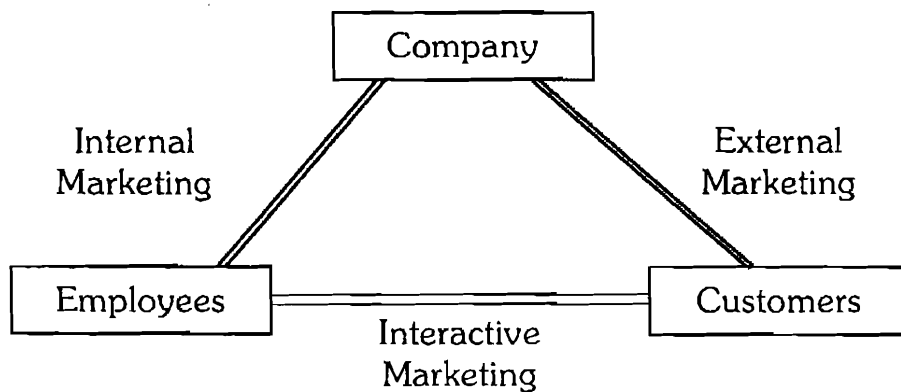


Fig. F1 - The Triangle Model of Services Marketing

Internal Marketing deals with marketing to employees, that is, motivating them to serve the customers. External Marketing involves making the services available to consumers. Interactive Marketing relates to efforts of employees to win customers' loyalty in the process of their interaction with the customers in delivering the services.

Parasuraman¹⁸ suggested the pyramid model of services marketing. (Fig. F2.).

¹⁷ Gronross, Christian, " A Service Quality Model and Its Marketing Implications", *European Journal of Marketing*, Vol. 18, No.4, 1984, pp.36-44 - Source: Mamoria, C.B., Suri, R.K. and Mamoria, Satish, *Marketing Management*, Kitab Mahal, Allahabad, 2000, p.716.

¹⁸ Parasuraman, A , "Augmented Marketing," *Business Today*, January 7-21,1997, pp. 25-26.

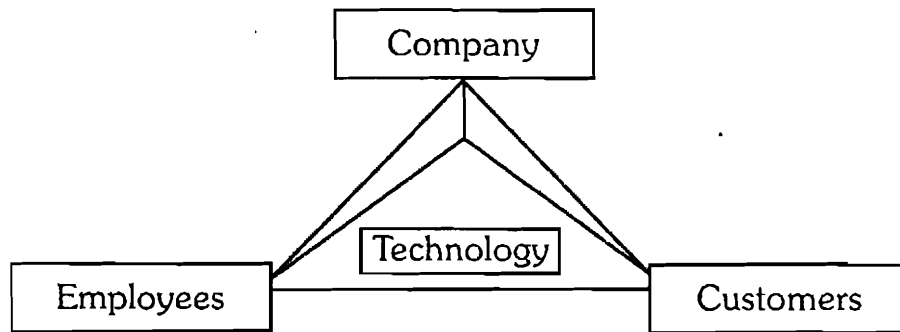


Fig.F2. The Pyramid Model of Services Marketing

The introduction of technology as a service delivery option adds a whole new dimension to services marketing. In addition, the various facets of the pyramid imply augmentation of the traditional internal, external and interactive marketing.

2.7 Service Marketing Mix

The elements of the marketing mix as applied in the marketing of tangible goods are equally applicable to services marketing also. As in product marketing the management should first define its marketing goals and select its target markets. Then management must design and implement marketing mix strategies to reach its markets and fulfil its marketing goals. However, the task of developing a total marketing programme in service industry is challenging because of the special features of services. The special characteristics of services make it quite difficult to apply the traditional Four Ps of marketing mix to services namely product, price, place and promotion.¹⁹

¹⁹ Zeithaml, V.A, Parasuraman, A and Berry, L.L., "Problems and Strategies in Services Marketing", *Journal of Marketing*, Vol.49, No.2, 1985, pp.33-46.

The object of a services firm is to deliver quality service to customers at competitive prices. The quality of service depends on the customer's expectations and their perception of the service. If these do not match, quality difference can arise which will lead not only to a dissatisfied customers but also to bad publicity. Thus a modified marketing mix has to be developed which will incorporate those elements which are essential to the marketing of services in addition to the Four Ps. The activities involved in the effective marketing of services are quite different and generally do not fall in the conventional marketing mix. Therefore, it is imperative for service managers to consider the extended marketing mix in formulating their marketing strategies.

Marketing experts have added three more Ps namely process, people and physical evidence to the services marketing mix.²⁰ The three extra Ps which are added to the existing four Ps, basically take into account the intangible nature of services and the considerable human element involved in the service process. Thus the 7 Ps of the service marketing mix are product, price, place, promotion, process, people and the physical evidence.

Following the trend Agrawal²¹ expanded the mix of marketing elements to eight variables and proposed a new marketing framework. It is

²⁰ Booms, M.H and Bitner, M.J., "Marketing Strategies and Organisation Structure for Service Firms", in Donnelly, J.H and George, W.R (Eds.), *Marketing of Services*, American Marketing Association, Chicago, 1982, pp.47-51.

²¹ Agrawal, M.L., "Managing Service Industries in the New Millennium : Evidence is Everything" , *Management and Labour Studies*, XLRI Jamshedpur Vol. 25, No.2, April 2000, pp.99-114.

based on the emerging icon of the new marketing order, time and speed. The model proposed that the pace of the marketing response is as controllable by marketers and, therefore, is to be included in the marketing response as are the rest of the marketing elements. Also, pace is not only an independent element of the proposed marketing mix but also viewed as the enveloping element for the rest of the seven elements. Thus a number of service organisations have adopted pace as an influential element of their marketing strategy.

2.7.1 The Product in Service

A product is anything that can be offered to a market for attention, acquisition, use or consumption. A product might satisfy a human want or need. The term, product includes physical objects, services, concept ideas, place or persons. Customers are not purchasing goods or services but are in fact buying specific benefits and values in the form of an offer to meet their particular needs.²² Service offers have been classified into the following three groups.

- ❖ Tangible goods with accompanying services such as computers, washing machine etc.
- ❖ A major service with accompanying minor goods and services such as hotels, resorts etc.

²² Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, Prentice Hall of India, New Delhi, 1990, p.430.

- ❖ Pure services such as consultancy, teaching etc.

The service product has four dimensions. These are:²³

1. The basic or core service, for example, serving food in a restaurant.
2. The expected service – this includes the minimum expectations that a customer has from a service, for example, a customer expects prompt service and comfortable seating in addition to good food from a restaurant.
3. The augmented services — here the service provider offers benefits over and above those that the customer expects.
4. The potential service — this contains all potential features and benefits that may be added to increase the utility of the service to the buyers. For example, a computer can be upgraded to function as a multimedia unit for entertainment or making presentation.

The important dimensions to be given due consideration while making product decisions are product planning and development, improving product specifications, eliminating or replacing old products etc. Management of service firms must select appropriate strategies regarding -

²³ Woodruffe, Helen, "Services Marketing", Macmillan India Ltd., New Delhi, 1999, p.125.

- ❖ What services will be offered
- ❖ What will be the length and breadth of the service mix offered and,
- ❖ What, if anything, needs to be done in the way of service attributes such as branding or providing guarantees.

New services are just as important to a service company as new products to a product-marketing company. Similarly, the improvement of existing services and the elimination of unwanted, unprofitable services are also key goals. It is important that the service marketers study the product life cycle and identify the emerging market trends. The new product requires invention and innovations through intensive research and analyzing the changing trends in demand. This makes it imperative that service-generating organizations are well aware of the changing needs and requirements of customers, their likes and dislikes, lifestyles etc. and make the marketing decisions accordingly. The strategies for designing the productmix determine the magnitude of success, and profitability of the service firms and the level of satisfaction to the customers.

2.7.2. Price in Services

Price is a key element in marketing mix. It must be aimed at achieving organisational goals and customer acceptance. The price of the service is the value attached to it by the service provider. It must correspond with the customer's perception of value and quality. If the service is priced too high,

customers who may not accept it will see it as poor value for money. If the price is too low, the service may be perceived as poor as inferior quality.

Customers differ in their needs, styles and spending power. Therefore, many service providers offer a wide range of services at various prices to meet the needs of different target customers. Some service firms follow differential price policy to correspond with changes in demand at different points of time. For example, a hotel may offer services at lower prices during off peak seasons.

The pricing decisions of a service firm are influenced by several factors. The type of service organization, the demand-supply position in the market, the level of competition, the stage in the life cycle may all have an impact on pricing decisions. However, organisational objectives have a dominant role in pricing decisions for long-term survival and excelling competition. Some service organisations like those owned by public sector have constraints over the prices they can charge to customers. Here pricing is dependent more on providing social benefits to customer rather than making profits. The factors affecting pricing policy include the following:

- ❖ Costs of providing the service
- ❖ Prices charged by competitors
- ❖ Demand levels and price elasticity of demand
- ❖ Marketing with other product mix
- ❖ Service quality and positioning

There are many pricing techniques or strategies a service organization can pursue in developing a pricing policy. These include the product pricing strategies like skimming, penetration pricing, cost plus pricing, differential pricing or promotional pricing. Pricing policy cannot be static; it should be a continuous process. A framework for pricing decisions should be monitored continuously to allow for responsive action and adaptation when required.

2.7.3. Promotion of Services

Promotion is used to communicate information about products and services to target market audiences thereby facilitating the exchange process. It helps to create awareness among the customers and enables them to select the service provider.

Promotional programme in a service firm should have three goals: to portray the service benefits in as appealing a manner as possible, to differentiate its offerings from those of its competitors, and to build a good reputation to the service firm. Since the service firm is marketing intangibles, reputation is very important. Promotional programmes can stress dependability of the service – its efficient delivery and consistent high quality.

The promotional measures of a service firm include personal selling, advertising, sales promotion, public relations and mailing offers. Personal selling is resorted to by many service providers to develop a close relationship with customers. Advertising is commonly used in many service firms like banking,

insurance, entertainments etc. to communicate about their products and services. However, a combination of these programmes will be the most effective promotional tool in creating favourable response from target audience.

The selection of communication mix depends on the level of competition, degree of intangibility in the service products, the reach of target customers, restrictions on the service professions etc. Some professional organisations restrict the use of advertising for their members on the ground that it is unethical.

A service marketer should not only understand how marketing communication works but also the media in which it has to function. This calls for a revision in the formulation of the goals of communication for the service industry. Agrawal proposes a revised Hierarchy of Effects model for creating evidence of services.²⁴ It is shown in Fig.F3 given below:

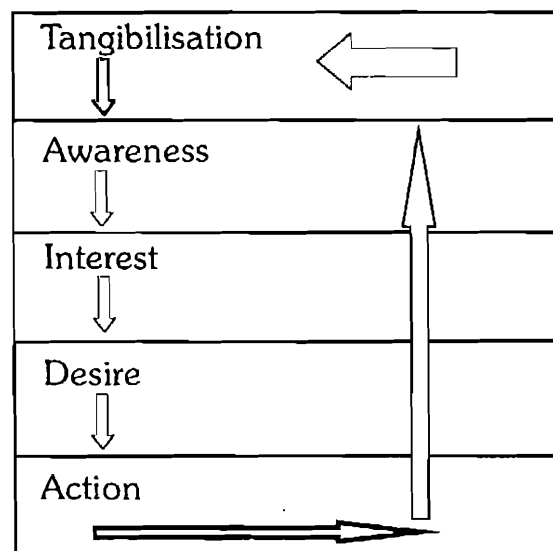


Fig.F3. The proposed 'Hierarchy of Effects' (TAIDA) Model for Services

²⁴ Agrawal, Mohanlal; "Managing Service Industries in the New Millennium: Evidence is everything", *Management and Labour Studies*, Volume 25, April 2000, Xavier Labour Relations Institute, Jamshedpur, pp.99-114.

Service marketers necessarily have to seek from their communication planning and media much beyond the goals of creating awareness, generating interest, developing a desire and then encouraging action among consumers. This was all right for goods. For service, it has to be more. Service communication must also provide evidence of the service or make tangible the service for the customers. For instance, a particular design, a website or a corporate logo in a service message is all evidences of the service.

2.7.4 Place Decisions in Services

In services, place decisions basically consist of deciding where to locate the service facility and what channels of distribution to use for delivering the service. The inseparable nature of services makes it necessary that it must be accessible and available to customers in order to facilitate the exchange process. It cannot be stored until a later date; it must be available for consumption at the point of production.

Distribution or the place element of the marketing mix is concerned with two main issues, namely, accessibility and availability of services. Accessibility refers to the ease and convenience, with which a service can be purchased, used or received. Availability refers to the extent to which a service is obtainable or capable of being purchased, used or received. Both criteria must be satisfied in order to achieve successful services marketing.

A key decision with regard service distribution is location. There are several factors, which influence the decision of service location. These are:²⁵

- Service inseparability
- Service perishability
- The role of the consumer as co producer of the service
- Customer needs and wants
- Importance of geographical location as part of the service
- Target markets

Many service organisations use direct distribution methods or personal selling in the distribution of their services. However, intermediaries or agents are employed in certain commercial services like banking, insurance etc. Some services like courier services operate through multiple outlets. But certain common functions like service designing, promotion etc., are done at a central location.

Another method of service distribution channel is known as franchising. Franchising is extensively used by software training firms like NIIT, Aptech etc. It basically consists of signing an agreement between the service organisation and another individual or firm called a franchisee. The

²⁵ Woodruffe, Helen, *Services Marketing*, Macmillan India Ltd., New Delhi, 1999, p.167.

agreement permits the franchisee to use the name and goodwill of the service firm. The franchisee is authorised to sell the service of the firm on payment of a royalty and/or commission to the franchiser. The franchiser lays down the standard conditions regarding location; space, décor, layout and external make up of the outlet.

Thus in services marketing as in marketing of goods, there are number of channel options to market the services. One can also make use of modern channels like e-mail and Internet for marketing services.

2.7.5 People in services

Services are people-oriented and highly interactive in nature. They involve considerable interaction between the service provider and customers. Therefore, employment of right kind of personnel in service firms is of utmost importance. The inseparable nature of services means that the human element forms an integral part of the service package. People being an element of services marketing mix applies not only to the service personnel but also to the customers who play an active role in the service delivery. In many services, customers form an important part of the service. For example, in education, the students are very much part of the learning programme. The participation of customer is essential to derive the full benefits of services.

People are the key to a successful service encounter and this can happen only if the employees develop an obsession with the customers. "The

organisation's staff are its prime resource, and human resources management is the professional approach to finding and developing the right people".²⁶ Central to successful service delivery is the management of the customer-provider interface. Employees need to understand their role in service exchange, and human resources management provides the programmes and strategies to ensure the highest standards of customer care.

2.7.6 Service Process Design

Service process means the way in which services are created and delivered. Services are not purchased and owned in the same way as physical goods. A service is created or performed rather than physically handed over. The performance process involves interaction between service provider and customers. Therefore, the service process is an integral part of service offering and also the consumer satisfaction.

It is only recently that the importance of service delivery process has been recognised and developed as a marketing tool in service industry. Developments in technology have also helped to revolutionise many processes in the service sector. The principles by which service delivery process can be designed and implemented are really not different from those applied in the field of manufacturing.

²⁶ Woodruffe, Helen, *Services Marketing*, Macmillan India Ltd., New Delhi, 1999, p.177.

There are four objectives of setting down clear outlines or blueprints for service delivery processes. These are:²⁷

- ❖ To ensure that service is carried out in the fastest, most efficient and cost effective manner possible,
- ❖ To enable service quality to be monitored and benchmarks to be put in place thus allowing accurate measurement of both quality and productivity.
- ❖ To facilitate staff training and enable individuals to carry responsibility for individual stages of the service transaction and delivery.
- ❖ To reduce the amount of divergence thus enabling accurate budgeting and manpower planning etc. to take place.

While designing a service delivery process the following factors are to be considered:

1. The extent of customer involvement or participation in the service process.
2. The location of the service points i.e., whether the services are delivered at the service-provider's premises or at the place of customers.
3. The nature of the service itself i.e., its intangibility, perishability etc.

²⁷ Woodruffe, Helen, *Services Marketing*, Macmillan India Ltd., New Delhi, 1999, p.193.

4. The degree of standardisation i.e., whether services are delivered in a standard format or whether customisation is done for services.
5. The complexity of the service as measured by the number steps or activities in the service delivery process.

The pace of technological developments in recent years has had a major impact on service delivery processes and practices. Service providers and customers have now online information and access to services like banking, stock broking, airline-ticket booking etc. Many organisations have been using technology to improve service efficiency and reach of services. Some new services have also developed directly out of developments in technology such as mobile communication, internet- trading and e-commerce.

2.7.7. Physical Evidence in Services

Physical evidence or appearance is an important element of service marketing mix. Since services lack tangibility the consumers require evidence to prove that they exist in the same form as being claimed by the service provider. Some services are product based and service providers will focus on ensuring that any accompanying goods, which form part of the service, are of appropriate quality and standard. Services, which are highly intangible like consultancy and financial advice, are more difficult for the consumer to assess. In the absence of any tangible products, consumers will look for other ways of evaluating the service. In this context physical evidences like the tangible aspects

of the service, the physical surroundings, location, décor and layout of the organisation help the service firms for marketing the services efficiently.

A piece of service evidence is a physical object accompanying a service that cannot be categorised as true product elements.²⁸ For example, for a bank, its computers, ATMs, personnel, Ledgers will form some of the pieces of evidence that will be used by its customers to evaluate the services expected from the bank by its customers. Service evidence, according to Shostack, plays a critical role in verifying either the existence or the completion of a service.

The perception of customers with regard to physical evidence includes two main types: essential evidence and peripheral evidence.²⁹ Essential evidence is integral to the service offering and includes the tangible aspects or benefits. Thus a computer in a bank or a teacher in a management institute is essential evidence of these service providers. This type of evidence will not normally be exchanged or owned by the customer. In all cases, the quality and standard of the essential evidence will be a major influence in the customer's purchase decision.

²⁸ Shostack, G.L. "Breaking Free From Product Marketing", *Journal of Marketing*, Vol.41, No.2, April 1977, pp.73-80, Source: Agrawal, M.L., "Managing Service Industries in the New Millennium: Evidence is Everything," *Management and Labour Studies*, Vol.25, April 2000, XLRI, Jamshedpur-2000, pp.99-114.

²⁹ Zeithaml, V. A, "How Consumer Evaluation Processes Differ Between Goods and Services", in Donnelly, J.H and George, W.R, *Marketing of Services*, American Marketing Association, Chicago, 1981, pp. 186-189.

Peripheral evidence, unlike essential evidence, can be given away or exchanged during service transactions. Thus a bank passbook in a bank or course material in an academic institution are peripheral evidence of the service providers. Peripheral evidence plays an emotional role in consumer evaluation of a service before, during and after purchase.

Both these types of evidence combine with the organisation's other marketing mix elements, especially promotion and people, to create an impression on customers and potential customers. Physical evidence will help the potential customers to evaluate the service offering and its quality and standard. Their impression of quality will always be subjective and based on their individual perception of the physical evidence and other elements of the service offering. Therefore, service marketers are expected to search, identify and innovate various configurations of service evidence. These configurations include a dynamic location, physical infrastructure, corporate image and identity, motivated and trained service personnel etc.

2.8 Service Quality

Service quality is the degree of excellence and perfection achieved in performing a service. Quality in services is basically a customer-oriented phenomenon. It must begin with customer needs and end with customer satisfaction. Customers are satisfied when their expectations are met, and delighted when their expectations are exceeded. Quality of service is the key

to creating customer value and satisfaction. Quality is achieved when customers are provided with the best solutions or the best value for money.

Quality is subjective and hence it is difficult to give a precise definition. However, “the quality of services is the degree of conformance of all the relevant features and characteristics of service to all the aspects of the customer’s needs limited by the price and delivery he or she will accept”.³⁰

Service quality when defined in terms of customer satisfaction is the degree of conformance of the perceptions of the service received to the expectations of the service desired. It is the totality of the features and characteristics of a service that bear on its ability to satisfy stated or implied customer needs.³¹

The nature and characteristics of services can have an impact on quality issues:³²

- ❖ The intangibility of many services means that, it can be very difficult for service quality to be measured and assessed.
- ❖ Inseparability of the service itself from the service provider highlights the role of people in the service transaction and their influence on quality levels.

³⁰ Groocock J.M., *The Cost of Quality*, Pitman London, 1974, Source: Sinha,PK and Sahoo, S.C, *Services Marketing: Text and Readings*, Himalaya Publishing House, Bombay, 1994,p.181..

³¹ Berry, L.L. and Parasuraman, A., *Marketing Services: Competing Through Quality*, The Free Press, New York 1991 pp.136-142)

³² Woodruffe, Helen, *Services Marketing*, Macmillan India Limited, New Delhi, 1999, p. 105.

- ❖ The heterogeneous nature of services means that a service is never exactly repeated and will always be variable to some extent.
- ❖ The perishable nature of services can lead to customer dissatisfaction if demand cannot be met.

Service quality may be judged from: -

1. Design reflected through the relevant features and characteristics of services
2. Satisfaction of customers' needs and
3. Production and delivery of the service

Service quality is of fundamental importance in the design of service product. More than any other factor service organizations are likely to be judged by the quality of service provided. Basic marketing decisions thus have to be made on service quality because:

1. Quality will influence the volume of demand for a service and
2. Quality will be a major positioning tool in relation to other competitors in the market place.

2.8.1. Evaluation of Service Quality

The role of marketing in developing service quality is an important one. The needs and expectations of the consumers are critical factors in assessing service quality. A marketing and customer orientation throughout the organisation can ensure that service providers get close to the customers, thus ensuring that service delivery meets customer expectations. The customer, in terms of their expectations of the benefits, may judge the actual output of the service. This leads to an important idea in assessing quality from a service marketing perspective, that is, perceived service quality.

Perceived service quality represents the judgements of customers of an organisation's service based on their overall experience of the service encounter. Understanding how customers arrive at this judgement is very important for service marketing management.

It has been indicated that customers make these decisions using a number of key criteria to judge the services. These factors relate to areas covered by the extended services marketing mix namely people, process and physical evidence. These can be broadly categorized as follows:

People:

- ❖ Credibility, professionalism, efficiency, courtesy
- ❖ Approachability, accessibility, good communications
- ❖ Identifying and understanding customer needs

Process:

- ❖ Time keeping, dependability, trusted performance levels
- ❖ Promptness, efficiency

Physical evidence:

- ❖ Appearance of tangible aspects of the services
- ❖ Physical surroundings, smartness

The following figure depicts the grounds on which customer's expectations are formed and the criteria that customers use to evaluate or form opinions about the quality of service.

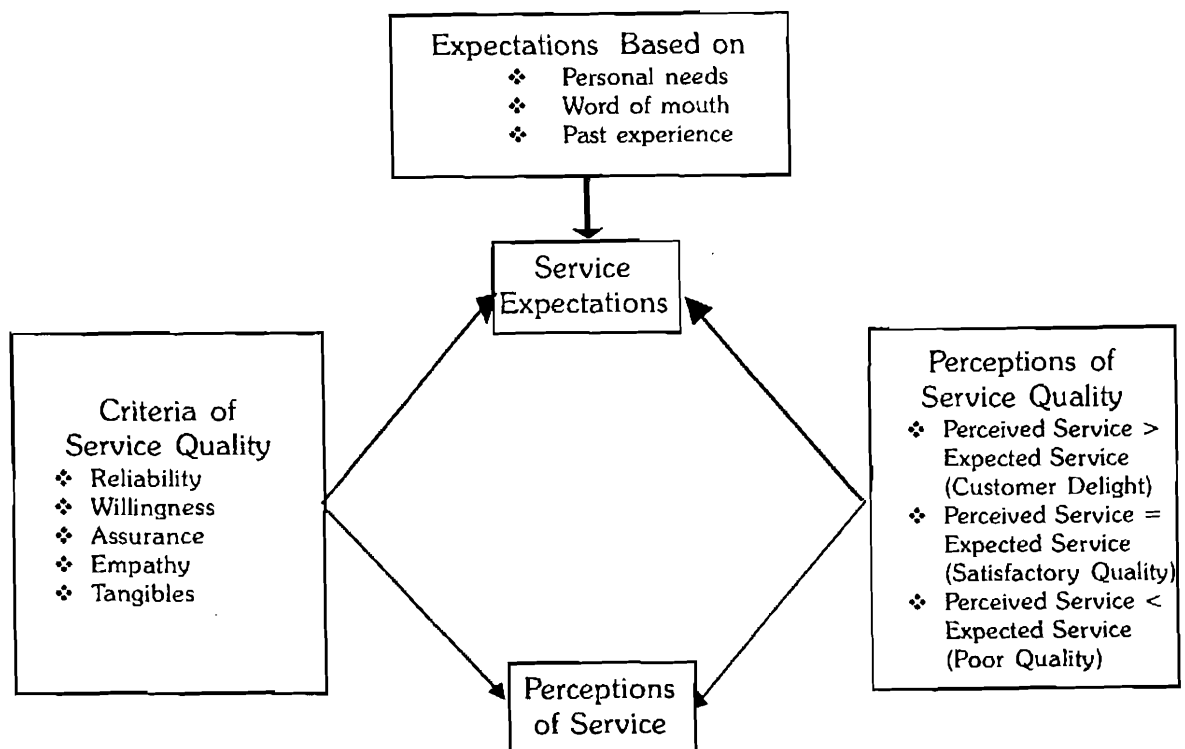


Fig. F4 Service Quality Perception Diagram

Customers' expectations of a service are based on their personal needs, what they have heard about the service from other people and their past experience from the firm and its competitors.

A model of service quality where the total quality of a service is a function of three components has been proposed by Gronross (1980).³³ These components are:

Corporate image: the overall image of the organization has and its overall attractiveness.

Technical quality: whether the service provides the appropriate technical attributes.

Functional quality: how the service is rendered.

2.8.2 Dimensions of Service Quality

The most important service quality model is the SERVQUAL developed by Parasuraman, Zeithaml and Berry.³⁴ There are five main criteria on the basis of which service quality is determined. They have been arranged in the order of importance as given below:

³³ Gronross, C, "An Applied Service Marketing Theory", Working Paper, Swedish School of Economics and Business Administration, Helsinki, 1980.

³⁴ Parasuraman, A, Zeithaml, V.A and Berry, L.L., "SERVQUAL : A Multiple Item Scale for Measuring Consumer Perceptions of Service Quality", *Journal of Retailing*, Vol. 64, No.1 Spring 1988, pp. 12-37, Source : Xavier, M.J., *Marketing in the New Millennium*, Vikas Publishing House, New Delhi, 1999.

1. **Reliability:** This implies the capacity of the service firm to deliver the promised service dependably and accurately. It means that the same service is performed every time, on time, in the same way and without mistakes.
2. **Willingness:** This refers to the willingness to help customers and provide prompt service. Customers do not like to wait unnecessarily and if it happens it reflects badly on the quality of service. Similarly in case of service failure, the ability of the firm to respond professionally and quickly can create a good impact on service quality.
3. **Assurance:** This means the knowledge that the providers possess which enables them to perform the service competently. It also includes courtesy aspects such as politeness and respect for customers. This conveys trust and confidence and generally convinces the customer that the service provider has the customer's best interest at heart.
4. **Empathy:** It basically means the power of understanding the customer's feelings and needs which allows the server to care for him and provide personal attention to him. Due to this a customer feels that he can approach the server with confidence and has a feeling of security.
5. **Tangibles:** This includes the overall appearance of the surroundings, equipment, information materials and personnel. This can be visible evidence of the care and attention to details shown by service firm.

Service quality has two important implications for the organization providing the service. First, decisions must be made on the basic level of quality, which will be provided to match the quality, which is expected by consumers. Secondly, decisions have to be made on the management of quality over time. These decisions have significant influence on the service offerings in the long term.

2.9 Development of New Services

The success of a service organisation depends not only on managing the existing services efficiently but also in developing new services. A dynamic organisation always tries to identify new opportunities and convert them into profitable business propositions. New service development must be a well thoughtout plan and envisages several processes. These processes are shown in Fig. F5 given below:³⁵

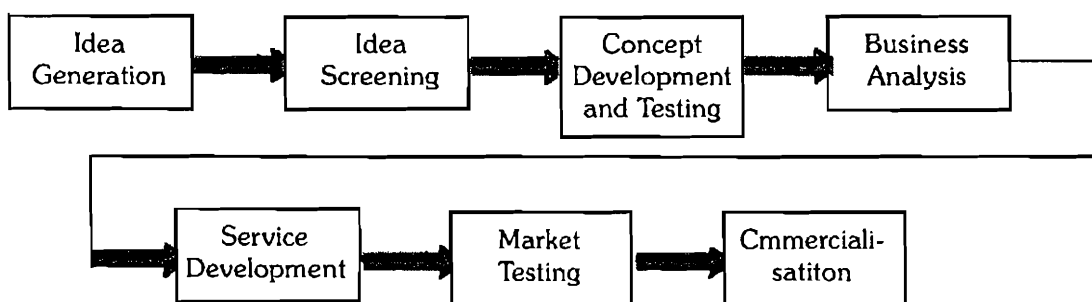


Fig. F5. Major Stages in New Service Development.

In this context it is imperative to describe the different stages mentioned in the development of new services.

³⁵ Kotler, Philip, Marketing for Non profit Organisations, Prentice Hall of India, New Dehi, 1985, p. 115.

1. Idea generation

Generation of a creative idea is the beginning of a successful service. It starts with a careful analysis of customer needs and market opportunities. The idea can come from internal sources like staff, organisation's own research and development studies, management's judgement etc. or from external sources like customers, consultants, market demand analysis etc. Marketing research can contribute new ideas or disclose new areas where a firm can enter and exploit the opportunity.

2. Screening the idea

Screening is a preliminary investigation of the new service idea. The object of screening the idea is to see whether the idea needs a detailed analysis or it must be dropped altogether. In the screening stage, the organisation has to verify details of the idea such as its attractiveness, the expected size of market, the compatibility of the idea with the organisation's objectives and resources etc. The screening reveals the ideas to be rejected and those feasible ideas to be accepted. These feasible ideas are considered for further analysis and development.

3. Concept Development and Testing

A service idea develops into a service concept which is an elaborated version of the idea expressed in meaningful consumer terms. Concept

testing calls for gathering the reactions of consumers to the service concept. In product marketing extensive marketing research and consumer surveys are used for product testing. But in services the concept testing is made by discussing the concept with small group of target clients or by small-scale surveys of existing and potential clients.

4. Business Analysis

Business analysis is an in-depth exploration and evaluation of the service concept. It involves analysis of the key parameters of the service including its market potential and profitability. The analysis focuses on areas like the target market, its size and expected market share, the level of current and future demand, analysis of break even point and profitability, external market environment affecting performance etc.

5. Service Development

At this stage, preparations are made for developing and launching the service. Necessary infrastructure may be developed for rendering the new service like designing and supplying literature, brochures, schedules and other tangible elements of the service. A suitable marketing strategy is also developed at this stage. Sometimes the existing process may be adapted for accommodating the new service or new premises may be added.

6. Market Testing

Market testing is the process of introducing the service to a selected number of clients to examine its viability and market performance. It helps to identify the weaknesses of the service including its marketing plan. If the market testing proves to be successful the service can be launched with full fledged marketing programme.

7. Commercialisation

In the final stage of a service promotion, the service is launched commercially. The organisation may also adopt suitable marketing strategies for the successful implementation of the marketing programme.

2.10 The Life Cycle Concept of Services

A service has also life cycle analogous to the biological life cycle. The services life cycle has definite stages of life depending upon the performance of the service in the marketplace. The service life cycle comprises of four well-known stages, namely, the introduction stage, the growth stage, the maturity stage and the decline stage. The graphical representation of these four stages is depicted Fig.F6 below:³⁶

³⁶ Woodruffe, Helen, *Services Marketing*, Macmillan India Ltd., New Delhi; 1999, p. 128.

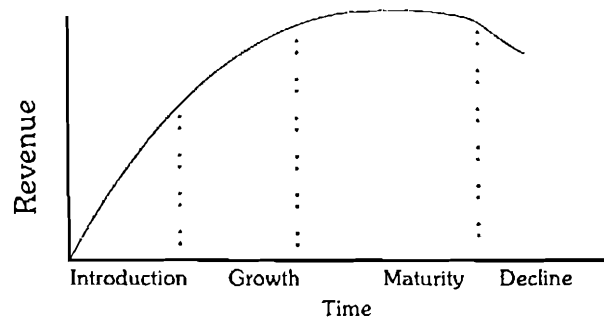


Fig. F6. Service Life Cycle

Introduction Stage

The introduction stage represents a slow rate of growth of revenue as the service is introduced in the market. Promotion costs are high at this stage. The service is yet to catch up a reasonable market share and wide consumer acceptance.

Growth Stage

The organisation's revenue increases at a higher rate and even profitability may be achieved at this stage. Promotion costs come down and the firm captures a good market for the service. The firm can even think of additional investment for expansion of the service.

Maturity Stage

Mature service offerings are characterised by steady demand for the service and stability in earnings. The firm faces extreme competition in the marketplace. The main task of the firm is to retain the market share by putting extra efforts to promote revenue.

Decline Stage

All services may not have high market acceptance at all times. Some services fade out or may be replaced by new ones. The poor performance leads to fall in revenue and profitability and service comes to a decline stage in the life cycle.

The life cycle concept thus helps service managers in designing and fine-tuning appropriate marketing strategies depending upon the particular lifecycle of the service.

Service marketing is a growing discipline as the service sector continues to grow both in size and importance. It is not a peripheral activity but a carefully planned programme aimed at achieving desired results. Service marketing helps the organisation to achieve its organisational goals by satisfying the needs of customers more effectively. Marketing operates within a dynamic global environment and is facing new challenges. It needs a lot of innovations to assess the changes in consumer needs and to design appropriate marketing strategies. Research in this area can contribute a lot in bringing new ideas, information and techniques in service marketing to provide real value to service marketers and to customers.