SERVICES MARKETING
(Text and Cases in Indian Context)

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First Edition: 2014
# First Edition: 2014

## Published by
Mrs. Meena Pandey for Himalaya Publishing House Pvt. Ltd.,
"Ramdoot", Dr. Bhalerao Marg, Girgaon, Mumbai - 400 004.
Phone: 022-23860170/23863863, Fax: 022-23877178
E-mail: himpub@vsnl.com; Website: www.himpub.com

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## DTP by
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## Printed at
Geetanjali Press Pvt. Ltd. Nagpur. On behalf of HPH.
Preface

Marketing of Services is gathering importance day by day. The service industry has been growing during the recent past due to various reasons. Factors like increasing affluence, desire to use leisure time, availability of credit cards and credit facilities, increasing availability of new products and gadgets, etc., have contributed to the growth of service industries in India.

The share of the services sector – which already contributes to almost 50 percent to gross domestic product (GDP) – in generating income and providing employment in both the organised as well as the unorganised sector, is set to rise further in the coming decade. The segments of service industry in India with the highest growth rate include Insurance, Banking, Internet Advertising, Organised Retailing, Live Entertainment, Health and Tourism. Due to this positive trend, opportunities for placement for MBA students are also excellent in the service industries.

A thorough understanding of the concepts, theories and applications of Services Marketing as a subject is, therefore, becoming all the more important for management students. The purpose of this book is to meet this requirement of our students.

This book provides students with the fundamentals of the concepts and theories of Services Marketing, and also their practical applications as practised by service marketers in Indian context. The book is profusely illustrated with examples of service industries in India, to help the students to understand the concepts easily. The chapters are sprinkled with live case studies of services from our country.

This book is written in simple language, using a lucid style, without diluting the conceptual qualities of the subject, and will be a useful textbook for the students and faculty for MBA in most of the universities in India. It will also be useful as a reference manual for service marketing professionals.

I am thankful to Mrs. Meena Pandey, Mr. Anuj Pandey, Mr. Niraj Pandey and Mr. Vijay Pandey of Himalaya Publishing House Pvt. Ltd., for encouraging me to write this book.

Special thanks to my wife, Vasantha Karunakaran, for the excellent work of creating the soft copy of the book and editing the same, and my son, Jaidev for his constructive criticism.

Bengaluru
2 March 2014

Dr. K. Karunakaran
(k.avkarun@gmail.com)
## Contents

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Title</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>INTRODUCTION TO SERVICES</strong></td>
<td>1 – 25</td>
</tr>
<tr>
<td></td>
<td>Concept of Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Offerings and Customer Service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contribution of Services Sector to India’s Economy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reasons for the Growth of the Service Sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technology as a Driving Force for Growth</td>
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<tr>
<td></td>
<td>Role of GATS in the Service Sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Distinctive Characteristics of Services as Compared to Products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tangibility Spectrum</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Concept of Service Marketing Triangle</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services Marketing Mix – An Overview</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Questions for Discussion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case Study: Example of an Innovative Service: ATMs</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td><strong>SERVICE QUALITY – The GAPS Analysis Approach</strong></td>
<td>26 – 46</td>
</tr>
<tr>
<td></td>
<td>Determining the Optimal Quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The GAP Analysis Model</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer Gap</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Provider Gaps</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Summary of Research Findings on Service Quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management of Service Quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Questions for Discussion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case Study: Mobile Phone Services in India</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case Study: Mumbai Dabbawalas – Amazing Service</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td><strong>CONSUMER BEHAVIOUR IN SERVICES</strong></td>
<td>47 – 69</td>
</tr>
<tr>
<td></td>
<td>Search, Experience and Credence Qualities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stages of Consumer Decision Making for Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer Expectations of Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Zone of Tolerance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Factors Influencing Customer Expectations of Service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer Perception of Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer Satisfaction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Factors that Influence Customer Satisfaction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Quality Dimensions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Encounters</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Types of Service Encounters</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Evidence of Service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Questions for Discussion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Tests of Customer Service</td>
<td></td>
</tr>
</tbody>
</table>
4 MARKETING RESEARCH IN SERVICES 70 – 86
Introduction
Objectives of Research
Criteria for an Effective Research in Services
Types of Service Marketing Research
Questions for Discussion
Practical Application of Service Marketing Research: Mystery Shopping
Example of Services Marketing Research: Critical Incident Technique

5 RELATIONSHIP MARKETING 87 – 111
Introduction
Evolution of Customer Relationships
Benefits of Customer Relationship
Market Segmentation and Targeting in Services
Lifetime Relationship Value of Customers
Segmentation Based on Customer Profitability
Customer Retention Strategies
Relationship Bonds
Strategies for Building Relationships
Customer Interaction Management (CIM) and e-CRM
Service Failure and Recovery
Guidelines for Service Recovery
Service Guarantees
Questions for Discussion
Case Study: How (not) to Chase Customers Away

6 SERVICE STANDARDS 112 – 130
Introduction
Need for Customer-defined Standards
Process for Developing Customer-defined Standards
Service Leadership
Service Quality and Profit
Role of Service Quality in Offensive and Defensive Marketing
Measuring Company’s Performance – the Balanced Performance Score Card
Questions for Discussion
Case Study: Vasan Eye Care

7 SERVICE DESIGN AND POSITIONING 131 – 150
New Service Design – Challenges
New Service Development
Types of New Services
New Service Development Process
Service Blueprinting
Components of a Service Blueprint
Preparing a Service Blueprint
Service Positioning
Developing the Value Proposition for Positioning
Blue Ocean Strategy – Its Relevance to Services Marketing
Questions for Discussion
Case Study: Golden Chariots – Example of Positioning Luxury Trains in India
8 ROLE OF EMPLOYEES IN SERVICES MARKETING 151 – 174
Importance of Service Employees
Boundary Spanning Roles
   Emotional Labour
   Sources of conflict
Strategies for Managing Service Employees
Service Culture
Internal Marketing
Questions for Discussion
Examples of Latest Service Marketing Practices – Robots Replacing Service Employees
Case Study: Service Culture of British Airways

9 ROLE OF CUSTOMERS IN SERVICES MARKETING 175 – 194
Importance of Customers
Roles Played by Customers
Self-service Technology – Total Customer Participation
Strategies for Enhancing Customer Participation
Questions for Discussion
Example of High Level of Customer Participation: Health Clubs
Case Study: Self-service Technology – eBay Inc
Case study: Online Book Shops

10 SERVICE INTERMEDIARIES 195 – 216
Introduction
Types of Distribution in Services
The Strategic Role of Intermediaries
Key Intermediaries for Service Delivery
   Direct Delivery
   Franchising
   Agents and Brokers
   Electronic Channels
Problems and Issues in Channel Management
Intermediary Control Strategies
Questions for Discussion
Case Study: McDonald’s Business Strategies in India
Case Study: VLCC: Growing through a Healthy Franchiser – Franchisee Relationship

11 MANAGING DEMAND AND CAPACITY 217 – 240
Introduction
Variations in Demand
Understanding Demand Patterns
Strategies for Matching Capacity and Demand
   Shifting Demand to Match Capacity
   Adjusting Capacity to Meet Demand
Yield Management
Waiting Line Strategies
Questions for Discussion
Case Study: Waiting Line Management at Tirumala Temple
<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Role of Marketing Communications in Services</td>
<td>Importance of IMC in Services</td>
<td>241 – 260</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Key Reasons for Gap 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strategies to Match Service Promises with Delivery</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manage Service Promises</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Manage Customer Expectations</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improve Customer Education</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Manage Internal Marketing Communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Absence of Communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Importance of Word-of-Mouth</td>
<td></td>
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<td>Communication Through the Internet</td>
<td></td>
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<td></td>
<td>Questions for Discussion</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Case Study: Promoting Medical and Health Tourism in Kerala</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Pricing of Services</td>
<td>The Role of Price</td>
<td>261 – 284</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Objectives of Pricing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Pricing Strategy Tripod</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Approaches to Pricing of Services</td>
<td></td>
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<td>Cost-based Pricing</td>
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<td>Competition-based Pricing</td>
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<td></td>
<td>Demand-based (value to customer) Pricing</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td>Pricing Based on Perceived Value</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Pricing Strategies</td>
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<td></td>
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<td>Deciding the Price for Services</td>
<td></td>
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<td>Questions for Discussion</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Case Study: Spice Jet – India’s Low Cost Airline</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Physical Evidence in Services</td>
<td>Understanding Physical Evidence</td>
<td>285 – 304</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Types of Servicescapes</td>
<td></td>
</tr>
<tr>
<td></td>
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<td>Roles of Servicescapes</td>
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<td>Framework to Understand the Effects of Servicescape on Behaviour</td>
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<td>Environmental Dimensions</td>
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<td>Internal Responses</td>
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<td>Behaviours in Servicescape</td>
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<td>Strategies for Physical Evidence Design</td>
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<td></td>
<td>Questions for Discussion</td>
<td></td>
</tr>
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<td>Case Study: Wonder La, Bengaluru</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Case Study: Servicescapes of Coffee Parlours in India</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Applications of Services Marketing</td>
<td>Introduction</td>
<td>305 – 327</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marketing of Financial Services</td>
<td></td>
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<tr>
<td></td>
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<td>Marketing of Tourism</td>
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<td>Marketing of Health Services</td>
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<td>Marketing of Educational Services</td>
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<td></td>
<td>Marketing of Professional Services</td>
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<td></td>
<td>Questions for Discussion</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Case Study: Advertising Companies of India</td>
<td></td>
</tr>
</tbody>
</table>
16  RETAIL MANAGEMENT  
Introduction to Retailing  
Functions of Retailing  
Special Characteristics  
Retail Management Strategy  
Retail Management Activities  
Relationship Management  
Unethical Practices to be Avoided  
Retail Organization Structure  
Retailing Scene in India  
Reliance’s Entry into Retail Marketing  
Growth of Highway Retailing  
Profiles of a Few Leading Retailers in India  
Retail Robots  
Merchandising  
Shrinkage Management in Retail  
Questions for Discussion  
Case Study: The Pros and Cons of FDI in Retail  
Case Study: Tata Starbucks Expansion  
Innovations in Retail Service Delivery

17  INSURANCE MARKETING  
Introduction to Insurance  
The Market Situation for Insurance  
Sales Force for Insurance  
Marketing Objectives for Insurance  
Challenges in Insurance Marketing  
Insurance Marketing Strategies  
Basic Qualities Needed for Insurance Salesmen/Agents  
Pre-requisites of Effective Insurance Selling  
Protection for Consumers in Insurance  
Questions for Discussion  
Case Study: Celebrity Insurance  

BIBLIOGRAPHY
INTRODUCTION TO SERVICES

Chapter Contents

● Concept of Services
● Service Offerings and Customer Service
● Contribution of Services Sector to India’s Economy
● Reasons for the Growth of the Service Sector
● Technology as a Driving Force for Growth
● Role of GATS in the Service Sector
● Distinctive Characteristics of Services as Compared to Products
● Tangibility Spectrum
● Concept of Service Marketing Triangle
● Services Marketing Mix – An Overview
● Questions for Discussion
● Case Study: Example of an Innovative Service: ATMs

CONCEPT OF SERVICES

In order to understand the concept of services, let us take the example of a motorcycle mechanic and a doctor. When the motorcycle has some problem, a student takes it to the mechanic in the service station. He explains to the mechanic about the problem. The mechanic checks the various parts of the motorcycle, identifies the fault and then repairs or rectifies the same. Similarly, take the case of a patient going to a doctor for treatment. The doctor will examine the patient, ask for some tests to be done, and based on the results, give his diagnosis and prescribe medicines. The services offered by the mechanic and the doctor are not tangible things that can be touched, seen and felt, but rather are intangible deeds and performances.

Services include all economic activities whose output is not a physical product, is generally consumed at the time it is produced, and provides added value in forms (like convenience, entertainment, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser. For example, the core product offerings of hospitals, hotels, banks, BSNL, BESCOM, Vodafone, colleges, airlines, etc. comprise of services.
Services are defined as deeds, processes and performances. They are all intangible marketing offers provided to customers to satisfy a need or want.

Services can be defined as “A form of product that consists of activities, benefits or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything.”

— Philip Kotler

SERVICE OFFERINGS AND CUSTOMER SERVICE

It is necessary to understand the difference between service offerings and customer service.

Service offerings are intangible products offered for sale to customers by service providers to meet specific needs and wants. These can be sold to business customers (e.g., consultancy, transportation, warehousing, maintenance services, construction of a factory, etc.), or to end customers (e.g., hotel, restaurant, healthcare services, education, etc.). Service offerings can be sold by traditional service companies (e.g., banks, insurance companies, mobile service like Airtel) as well as the manufacturers (e.g., IBM, GE). They all provide core service product offerings to customers.

Customer service is service provided in support of a company’s core products whether these core products are goods or services. Customer service includes things like answering questions (BPOs), billing, and handling complaints, taking orders, door delivery of products, installation, demonstration and maintenance. There is no charge for some customer service, while nominal fee is charged for others. Customer service is part of all marketing offers – tangible and intangible. Both manufactured goods marketers and service industries use customer service.

Examples of Selected Services

<table>
<thead>
<tr>
<th>Services</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Utilities</td>
<td>Electricity, water supply, sewerage, PWD (roads and bridges)</td>
</tr>
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<td>Law enforcing, Civil, Administrative and Defense Services</td>
<td>Police, Army, Navy, Air Force, Fire Service, Judiciary (courts), Civil Administration, Municipal Services, Parks and Public Buildings</td>
</tr>
</tbody>
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## CONTRIBUTION OF SERVICE SECTOR TO INDIA’S ECONOMY

The service sector is a major contributor to India’s economy. It contributed around 55 percent of India’s GDP during 2010-11 and 56.3 percent in 2011-12, as per the Economic Survey of Government of India, 2012. The global recession only partially succeeded in slowing the Indian economy thanks to the continual offsetting growth of service sector to nearly 10 percent in the year 2010-11. The service sector continues to remain the growth engine for Indian economy.

It was found that when the Indian economy was growing at the rate of 9 percent in the years 2010-11, and 2011-12, the service sector witnessed a growth of 10-11 percent. The service sectors of India that have grown faster than the economy are as follows:

- IT (Information Technology, the leading service sector)
- IT – enabled services
- Telecommunications
- Community services
- Hotels and restaurants
- Tourism
- Organized retail

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<tr>
<th>Transport and communication</th>
<th>Railways, Airlines, Buses, Metro Rail, Postal Services, Telephones (BSNL, Airtel, Vodafone, etc.), Broadcasting (AIR, FM), Telecasting (Doordarshan, cable TV, TV channels)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributive trade</td>
<td>Wholesalers, retailers, dealers, agents</td>
</tr>
<tr>
<td>Insurance, banking, finance</td>
<td>Banks, insurance companies, financial institutions, share brokers</td>
</tr>
<tr>
<td>Business, professional and scientific activities</td>
<td>Advertising, marketing research, consultancy, legal, medical, educational (schools and colleges), maintenance and repairs, employment (HR agencies)</td>
</tr>
<tr>
<td>Leisure, recreation</td>
<td>Cinemas, theatres, clubs, gyms, restaurants, hotels, theme parks</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>Beauty parlours, health clubs, domestic help, drycleaning, matrimonial services</td>
</tr>
</tbody>
</table>
As far as employment is concerned, the services sector is in second place in India, next to agriculture.

The service sector of India has also witnessed a remarkable increase in the global market apart from Indian market. The broad-based services in the trade sector have undergone a large scale rise during the last few years. The areas of growth are as follows:

- Software services
- Business services
- Engineering services
- Personal, cultural and recreational services
- Financial services
- Travel, transport and insurance services

Suffice to say that the services sector of India has been the most high-powered sector in Indian economy during the last few years.

REASONS FOR THE GROWTH OF THE SERVICE SECTOR

Manufacturing industries grew because they produced tangible goods, which satisfied people’s physiological needs for food, shelter and clothing. As the basic need was fulfilled, there was demand for improved satisfaction, and this led to a proliferation of variations of the same product and a number of companies involved in its manufacture and marketing.

The growth of service industries can be traced to the economic development of society and the socio-cultural changes that have accompanied it. Sometimes the growth of a specific service industry is the result of a combination of several reasons.

The major reasons for the growth of service industries are given below:

1. **Increasing affluence**: Higher income levels have provided increased disposable income for people. This has generated greater demand for services (activities which consumers used to perform themselves) like interior decoration, laundry, care of household products such as carpets, care of garden, plumbing, electrical repairs, etc.

2. **More leisure time**: The desire to use leisure time for leisure has led to greater demand for recreation and entertainment facilities, travel resorts, adult education and self-improvement.

3. **Higher percentage of women in labour force**: This has created demand for day care centres, crèches, baby-sitting, household domestic help, etc.

4. **Greater life expectancy**: Improvement in life expectancy has generated great demand for nursing homes, health clubs and healthcare services.

5. **Greater complexity of products**: This has led to greater demand for skilled specialists to provide maintenance for complex products like air conditioners, cars and home computers.

6. **Increasing complexity of life**: This has led to the demand for specialists in income tax, labour laws, legal affairs, marriage counseling, event management and employment services.

7. **Greater concern about ecology and resource scarcity**: This has created greater demand for purchased or leased services, car rental, resort to time sharing rather than ownership basis.

8. **Increasing number of new products**: Proliferation of new products, especially computer-sparked development of programming, software development, and Business Process Outsourcing (BPO) has grown due to this reason.
TECHNOLOGY AS A DRIVING FORCE FOR GROWTH

Technological advancement has provided a boost to service sector all over the world, and especially so in our country. Technology, especially information technology (IT), is currently shaping the field of service sector, and profoundly influencing the practice of service marketing as a driving force. It has created many opportunities and challenges for service marketing. Technology has had a powerful influence on service marketing in the following areas:

1. Introduction of New Service Offerings
2. Providing New Process of Service Delivery
3. Facilitating both Customers and Employees
4. Extending the Reach of Services
5. The Internet Becoming an Enlarged Service.

1. Introduction of New Service Offerings

Advancement in technology has facilitated introduction of a variety of service innovations regularly used by all of us in the present. Mobile phones, video conferencing, Automated Teller Machines (ATMs), Voice Mail, Interactive Voice Response Systems (IVRS), Dish TV, broad-band, Internet services, etc. have become possible only because of new technologies. All these are introduced as new service offerings based on advancement of technology in communication.

The growing popularity of the Internet has now resulted in many of the advanced new services. Internet-based service providers like amazon.com and eBay offer online retailing – a service which was not even thought of earlier. Mobile phones and the Internet can be used both for communicating with customers and making offers and as an interactive marketing tool.

The Global Positioning Service (GPS) is another value added new service introduction. This allows the customers several services while on the move –like finding their location, route to their destinations, locating hotels, banks, restaurants, petrol bunks, etc. GPS tracking services also facilitate tracking cargo and courier despatches. Many logistics companies utilize this facility to track movement of transport vehicles and delivery of their cargo at destinations.

2. Providing New Processes for Service Delivery

Technology has also provided new processes and vehicles for delivering existing services in ways which are more accessible, convenient and productive. Even the basic customer service functions of marketing people are facilitated by technological advancement. Examples:

- Online ticket booking (air, rail or bus)
- Net banking
- Online bill paying (mobile, landline, LIC premium)
- Online information (Frequently Asked Questions, Google search, Wikipedia)
- Online shopping (flipcart.com, amazon.com)
SERVICES MARKETING

- Online education (MBA and other courses)
- Online tests and examinations
- Business Process Outsourcing (BPOs)

3. Facilitating both Customers and Employees

While technology facilitates customers to be more effective in receiving the needed services, it also helps the employees of the service marketers to provide their services effectively. Many self-service technology (SST) based services are now available, using which customers can conveniently and effectively serve themselves. For example, using net banking, customers can access their bank accounts anywhere in the world, check balances, pay bills online, order demand drafts, transfer funds to third parties, etc. All these transactions can be done without going to the bank or without any help from the bank’s employees. New technology also gives customers the means to access the services of a manufacturer or service marketer more quickly and easily. For example, using the website of a manufacturer, a customer can easily request for supportive information about how to handle a problem with a production machine in a factory or make arrangements for the maintenance of the machine. The Internet offers lots of opportunities to make a service more accessible than before, and it may also improve interactions. For example, a customer who is planning for Chardham yatra can use makemytrip.com to seek all related information on packages, costs, duration, itinerary, etc. and make the desired bookings online, sitting at home.

For the employees of service providers, technology provides support to make them more effective and efficient in delivering the services to customers.

Information technology (IT) systems and improved databases from which customer information files are easier to retrieve, and which are less complicated to update than before, provide customer contact employees with improved support to help them to be customer-centric in interactions with customers. More accurate, easily retrievable and available information about customers enables employees to increase the quality of customer interactions. Information technology and the development of intranets have had a tremendous impact on internal processes of service marketers and provided an effective system in internal marketing. The information support also allows employees to customize services to fit the specific customer needs and expectations.

4. Extending the Global Reach of Services

In the present day context, technology infusion has resulted in the potential for reaching out to customers around the globe in ways not possible earlier. Popularity of the Internet has created a borderless world as far as communication is concerned, and therefore, information, customer service and transactions can easily move across countries, reaching any customer in any part of the world, who has access to the Internet, and is computer savvy.
5. The Internet Becoming an Enlarged Service

The Internet can be considered as an enlarged, big service. Majority of manufacturers, organizations and service marketers have their presence on the Internet through websites. They are all providing services to customers on the Internet. The strategies, methods, tools and concepts of services marketing and management have direct use and impact on the Internet. Geographical boundaries do not pose a problem because of the connectivity achieved through the World Wide Web. The Internet is used profusely for selling, communication, market research and making payments. These are the traditional marketing activities. The Internet is also an interactive marketing vehicle, because a variety of service transactions can be initiated and also performed over the Internet. For example, by providing e-mail connections to helpdesks or other functions of a service company, the Internet becomes part of the service process. The way it functions influences the interactive marketing impact of the company. This will require that the service company manages to assume its role as an interactive partner in the virtual environment. For example, invitations to interact from a customer, perhaps using e-mail, must be responded to, if not immediately, at least as quickly as the customer considers acceptable. Slow response or no response means that no interactions develop, and the interest of the customer will be lost.

The Internet is a service – and relationship-oriented medium, even though it is often only used as a communications and sales tool. It is important for marketers to keep in mind that it is not the company who makes the first contact with a customer over the Internet. It is the customer or the potential customer who initiates the contact. If that contact can be developed into a service process with interactions between the company and the customer, a relationship will emerge. Since it is so easy to jump from one website to another, creating a relationship-oriented service interaction with a given customer may be an effective way of maintaining a given customer’s interest in the company and creating ongoing business.

**ROLE OF GATS IN THE SERVICE SECTOR**

The General Agreement on Trade in Services (GATS) is a treaty of the World Trade Organization (WTO) that entered into force in January 1995 as a result of the Uruguay Round negotiations. The treaty was created to extend the multilateral trading system to service sector, in the same way the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade. All members of the WTO are signatories to the GATS. The basic WTO principle of most favoured nation (MFN) applies to GATS as well. However, upon accession, members may introduce temporary exemptions to this rule.

Before the WTO’s Uruguay Round negotiations began in 1986, public services such as healthcare, postal services, education, etc. were not included in international trade agreements. Most such services have traditionally been classed as domestic activities, difficult to trade across borders, notwithstanding the fact that, for example, educational services have been “exported” for as long as universities have been open to international students. Nevertheless, foreign participation has existed in many countries prior to the GATS. Most service sectors—in particular, international finance and maritime transport—have been largely open for centuries, as necessary components of merchandise trade. Other large sectors have undergone fundamental technical and regulatory changes in recent decades, opening them to private commercial participation and reducing barriers to entry. The development of information technologies and the Internet have expanded the range of internationally tradeable service products to include a range of commercial activities such as medicine, distance learning, engineering, architecture, advertising and freight forwarding. While the overall goal of the GATS is to remove barriers to trade,
members are free to choose which sectors are to be progressively “liberalised”, i.e., marketised and privatised, under which mode of supply a particular sector would be covered and to what extent liberalisation will occur over a given period of time.

**Four Modes of Supply:** The GATS agreement covers four modes of supply for the delivery of services in cross-border trade:

<table>
<thead>
<tr>
<th>Mode 1: Cross-border supply</th>
<th>Criteria</th>
<th>Supplier Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Service delivered within the territory of the Member, from the territory of another Member</td>
<td>Service supplier not present within the territory of the Member</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mode 2: Consumption abroad</th>
<th>Criteria</th>
<th>Supplier Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mode 3: Commercial presence</th>
<th>Criteria</th>
<th>Supplier Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Service delivered within the territory of the Member, through the commercial presence of the supplier</td>
<td>Service supplier present within the territory of the Member</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mode 4: Presence of a natural person</th>
<th>Criteria</th>
<th>Supplier Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Service delivered within the territory of the Member, with supplier present as a natural person</td>
<td></td>
</tr>
</tbody>
</table>

**Service-based Economies – Contribution of Service Sector to GDP**

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of GDP from Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>78</td>
</tr>
<tr>
<td>France</td>
<td>77</td>
</tr>
<tr>
<td>U.K.</td>
<td>73</td>
</tr>
<tr>
<td>Japan</td>
<td>73</td>
</tr>
<tr>
<td>Germany</td>
<td>70</td>
</tr>
<tr>
<td>India</td>
<td>55</td>
</tr>
<tr>
<td>China</td>
<td>40</td>
</tr>
</tbody>
</table>

**DISTINCTIVE CHARACTERISTICS OF SERVICES AS COMPARED TO PRODUCTS**

Services have five special characteristics which have to be considered by companies while designing marketing programmes and strategies. These are the characteristics which are distinctive to services, as compared to products. They are given below:

1. Intangibility
2. Heterogeneity (Variability)
3. Simultaneous Production and Consumption
4. Perishability
5. Ownership

**1. Intangibility**

The most important characteristic of services is intangibility. Before and after buying a physical product like, for example, soap or talcum powder, the customer can see, feel, smell and use it to check
its effectiveness and quality. Cars and motorcycles are purchased by customers after test-driving. These are all tangible, physical products. Services, on the other hand, are intangibles, which cannot be seen, tasted, felt, heard or smelt before the purchase is made. For example, before actually staying in a hotel room, a customer cannot know the quality of service. Before travelling in a bus or an airline, we cannot understand its quality and reliability. We cannot make a trial trip on the bus or air-line before buying the ticket. Customers have to buy the service and use it to experience the quality. This is due to the intangible nature of services. There are some services like a doctor’s diagnosis or surgery, where the patient will not be able to understand the quality of service performed even after it is completed.

This special characteristic – intangibility – has some marketing implications. First, services cannot be stored or stocked as inventory for future use or sale. This creates problems of matching demand and capacity for the marketer. For example, there will be heavy demand for hotel accommodation in Goa during the winter months, but little demand during the rainy season. But the hotels have to maintain the same number of rooms to sell throughout the year, whether in rain or shine. To overcome this problem, most hotels give off-season discounts during the lean period to attract customers. Secondly, because of the intangibility property, services cannot be easily patented, and innovative service concepts can, therefore, easily be copied by competitors. Thirdly, customers may not be able to understand or assess service quality because services cannot be readily displayed or easily communicated to customers like tangible products. Lastly, pricing an intangible service is difficult as the actual costs of a unit of service are hard to determine, and the price-quality relationship is complex.

2. Heterogeneity (Variability)

Services are always heterogeneous. There can be variations in the service provided. It is very difficult for any service provider to standardize a service. The quality of service depends on who provides them as well as when, where and how they are provided. Quality variation can occur due to other factors like the customers not co-operating or not playing their intended role in service production and presence of other customers who are troublesome or quarrelsome. For example, Taj Group Hotels have a good reputation as providers of high quality standard service, as Five Star Deluxe hotels. But the same group may have efficient or not-so-efficient employees in the same premises, and their services will vary. Since the human element is very much involved in providing and receiving services, variations are normal and standardization is very difficult to achieve. Even the same doctor who gave his complete attention during a patient’s last visit may behave a little differently the next time.

One major marketing implication of the heterogeneous character of services is the difficulty to ensure consistent quality across time, organizations and people. Quality actually depends on many factors that cannot be fully controlled by the service provider, like the ability of the consumer to clearly state his or her needs, the ability and willingness of service employees to satisfy those needs in the presence (or absence) of other customers, and the level of demand for the service. Due to these factors which complicate the issue, the service marketer cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted. The potential heterogeneity is again increased when services are provided by a third party like a licensee or franchisee.

3. Simultaneous Production and Consumption

Tangible products like soaps, motorcycles, or cars can be produced first, stored and later sold to customers. But, since services are processes consisting of a series of activities where the customer and service employee have to interact, they are produced and consumed simultaneously. While most
physical products are produced first, then sold and consumed, most services are sold first and then produced and consumed at the same time. For example, a Hyundai Santro car can be produced in Chennai today, transported to Delhi, sold two months later and consumed over a period of fifteen to twenty years’ time. But the service in a restaurant like Memories of China cannot be provided until they have been sold, and the dining experience is essentially produced and consumed simultaneously. This characteristic also implies that in most cases the customer will be present while the service is being produced and may even take part in the production process. Situations may vary, depending on what kind of service is being considered. A hair dresser’s service is obviously almost totally produced when the customer is present and receives the service. The characteristic of simultaneity also implies that the customers will frequently interact with each other during the service production process and then may affect each other’s experiences (like strangers seated next to each other in a bus).

Simultaneous production and consumption leads to another implication known as inseparability in services. This means that it is not possible to separate the service from the service provider. The provider’s presence is essential for service production. For example, a plumber or an electrician has to be present to do a repair job. The doctor has to be in the clinic to treat the patients. However, in some services like banking, ticket booking, etc., self-service technology and use of the Internet have eliminated the need for the physical presence of service provider to a large extent.

One marketing implication of simultaneous production and consumption is that mass production like physical products is not at all possible. Quality control and marketing must take place at the time and place of simultaneous production and consumption. If the service company relies on traditional quality control and marketing approaches, the part of the service process where the customer is involved may go uncontrolled and include negative marketing experiences for the customer. The quality of service and customer satisfaction will be highly dependent on what happens in the process of production and consumption of the service, including actions of service employees and the interactions between employees and customers. This characteristic provides scope for service marketers to customize offerings for individual consumers. Simultaneous production and consumption also has the implication of the company’s inability to gain significant economies of scale through mass production and centralization. Operations may have to be relatively decentralized in services so that the service can be delivered directly to the consumer in convenient locations (IT and the Internet usage are changing this requirement). Yet another marketing implication of this character is that the customer is involved in, and observes the production process and often participates in it and thus may affect the outcome of the service transaction positively or negatively.

4. Perishability

Most of the services cannot be stored for future sale and hence, are perishable (i.e., become useless or waste or are lost forever). If the services of a doctor are not used by needy customers, they cannot be stored up for future use. For example, if there is a hortal or bund on a particular day, and no patients are able to visit a doctor, that day’s practice or service of the doctor goes waste or perishes. He cannot resell the previous day’s service the next day. In the case of hotels, there are lean periods and heavy demand periods. The hotels have to maintain all the rooms all through the year. But room booking will be minimum in the lean period. Since the occupancy lost thus cannot be resold in heavy demand period, it goes waste or perishes. That is why hotels give discounts in off-season to bring in more customers, or hire more staff when the peak season starts.

Perishability also implies that in contrast to physical products, services cannot be returned if the customer is unhappy. For example, a bad haircut cannot be returned or exchanged for a better one.
5. Ownership

Usually there is no transfer of ownership of anything in a service. There is no transfer of any tangible object as in product marketing (like buying a pen or a car, where ownership transfer from seller to buyer takes place). What is purchased by customers in services is just the use of, or access to the facility or service. The buyer does not become the owner of anything like in the case of buying a pen, a car, a TV, etc. in product marketing. When we use the services of Jet Airways to travel from Bangalore to Delhi, we are entitled to be transported by air from Bangalore to Delhi, but when we arrive at Delhi, there is nothing left with us but the remaining part of the boarding pass and the ticket. We cannot argue that we own the seat on the plane for which we paid the fare. When we withdraw money from our savings bank account, we may feel that the bank’s services resulted in our ownership of the withdrawn money. However, the bank’s service did not create this ownership. We owned the money all the time. The bank just took care of it for us for some time and gave it to us when we asked for.

For successful services marketing, the marketing managers must understand the nature of the above five characteristics of services and the manner in which they affect the marketing strategy. The implications of the characteristics of services and how the marketing strategy can be focused to overcome the constraints are described in Table 1.1 below:

Table 1.1: Implications of Service Characteristics and Ways to Overcome them

<table>
<thead>
<tr>
<th>Service Characteristics</th>
<th>Implications</th>
<th>Means of Overcoming</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Intangibility</td>
<td>Sampling difficult. Difficult to judge quality and value in advance. Not possible to patent or have copyright. Relatively difficult to promote.</td>
<td>Focus on benefits. Use brand names. Use personalities to personalise service. Increase tangibility (e.g., in physical representation)</td>
</tr>
<tr>
<td>4. Perishability</td>
<td>Cannot be stored. Problem of demand fluctuation</td>
<td>Better match between supply and demand by price reduction in low demand season.</td>
</tr>
<tr>
<td>5. Ownership</td>
<td>Customer has access to but not ownership of facility or activity.</td>
<td>Stress advantages of non-ownership like easier payment scheme.</td>
</tr>
</tbody>
</table>

(Source: Cowel, Donald, *The Marketing of Services*, Heinemann, London.)

TANGIBILITY SPECTRUM

In the explanation given above about the characteristics of services, we found that intangibility is a main determinant of whether an offering is a service. Though this is a reality, we cannot neglect the
fact that very few products are purely intangible or totally tangible. On the other hand, we can say that services tend to be more intangible than manufactured physical products, and manufactured products tend to be more tangible than services.

![Diagram showing the tangibility spectrum with examples of tangible and intangible products and services.]

For example, Domino’s, PIZZA HUT and McDonald’s belong to the fast-food industry and are classified as services. But these also have many tangible compliments such as the pizza, burger, French fries, soft drinks, etc., which the customer can own, touch, taste and eat. The attractive packaging is another tangible element of fast food service. Motorcycles and cars are classified as manufactured physical products which are tangible. Yet, they include some intangibles like transportation, seating comfort, driving comfort, etc. The tangibility spectrum shown in Figure 1.1 captures this idea. There are very few “pure services” or “pure goods”.

**Product or Service?**
Some Myths about Services

There are many misconceptions (beliefs that are not true) or myths about services:

- Service industry produces services at the expense of other sectors of the economy
- Service jobs are low paying and menial
- Service production is labour-intensive and low in productivity
- Service is a necessary evil for manufacturing companies
- Managing service is just like managing a manufacturing business.
- Service jobs do not have any challenge

CONCEPT OF SERVICE MARKETING TRIANGLE

Services marketing is about promises – promises made and promises kept to customers. A strange framework known as the services triangle visually reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships.

The triangle shows the three interlinked groups that work together to develop, promote and deliver services. These key players on the points of the triangle are:

1. The Company (or SBU or department or management)
2. The Customers
3. The Providers (employees of the service company, sub-contractors, dealers or outsourced entities who deliver the company’s services)

Between these three points on the triangle, three types of marketing must be successfully carried out for a service to succeed external marketing, interactive marketing and internal marketing.

On the right side of the triangle are the external marketing efforts that the firm engages in to set up its customers’ expectations and make promises to customers regarding what is to be delivered. Anything or anyone that communicates to the customers before service delivery can be viewed as part
of this external marketing function. But external marketing is just the beginning for services marketers. Promises made must be kept.

On the bottom of the triangle is what has been termed interactive marketing or real-time marketing. Here is where promises are kept or broken by the firm’s employees, sub-contractors, or agents. People are critical at this stage. If promises are not kept, customers become dissatisfied and eventually leave.

The left side of the triangle suggests the critical role played by internal marketing. The management engages in these activities to aid the providers in their ability to deliver on the service promise: recruiting, training, motivating, rewarding and providing equipment and technology. Unless service employees are able and willing to deliver on the promises made, the firm will not be successful and the services triangle will collapse.

All the three sides of the triangle are essential to complete the whole, and the sides of the triangle should be aligned. What is promised through external marketing should be the same as what is delivered. The enabling activities inside the organization should be aligned with what is expected of service providers. Many strategies are available for practice by service marketers for aligning the service triangle.

SERVICES MARKETING MIX – AN OVERVIEW

Marketing of products has 4 ‘P’ dimensions, viz., Product, Price, Promotion and Place. These are used in specific combination to arrive at the marketing strategy. Services’ marketing has three additional dimensions over and above the 4 Ps – People, Physical evidence and Process – making the requirements as 7 ‘P’s. The different elements of services marketing mix are explained below.

Product

Services can be visualized as products which provide benefits to the customers in the target market. Services are bundles of features, processes, deeds and performances which give benefits to specific target markets. It is important that the package of benefits in the service offer must have a customer’s perspective. The service product offer usually consists of three levels, as shown in Figure 1.3 below:

![Fig. 1.3: Three Levels of Service Product](image-url)
The first level is that of the basic service package which includes core service, facilitating services and supporting services. The second level is that of an augmented service offering where accessibility, interaction and consumer participation are given equal importance in delivering the service product. The third level is that of the market communication of the service offering as in its absence the value added augmented service package will not have any relevance to the customer.

**The Service package:** The package concept of service product suggests that what you offer to the market is a bundle of different services, tangible and intangible, but there is a basic or core service and around it are built the facilitator services. It is important to note that facilitating services are mandatory, and if they are left out, the entire service would collapse. The service package also includes supporting services. Supporting services do not facilitate the consumption of core service, but are used to increase the value, and thereby differentiate it from the competitor’s services. For example, in Taj Gardenia, the 5-star deluxe hotel in Bangalore, the core service is lodging and room service, the services of bell-boy (room boy) and housekeeping are facilitating services, and swimming pool, health club and travel desk are supporting services.

**The Augmented Service Offering:** It is found that in many instances, the basic service package is not equivalent to the service product the customer perceives. Customers perceive a service based on his/her experience and evaluation. Therefore, there is a need to involve the customer in the production of service offering and thereby reinforcing that the basic service package has to be expanded to a more holistic model of augmented (value added) service offering. Issues related to the accessibility of the service, interaction with the service organization and consumer participation are also integral elements of the augmented service product. The relevance of these issues to the augmented offering is given in Table 1.2.

<table>
<thead>
<tr>
<th>Table 1.2: Elements of Augmented Service Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accessibility of the service</strong></td>
</tr>
<tr>
<td>• Number and skill of employees</td>
</tr>
<tr>
<td>• Working hours and time used in performing various tasks</td>
</tr>
<tr>
<td>• Location of service outlet</td>
</tr>
<tr>
<td>• Exterior and interior of service outlet</td>
</tr>
<tr>
<td>• Infrastructure, hardware, documentation</td>
</tr>
<tr>
<td>• The number and knowledge of consumers simultaneously involved in the process.</td>
</tr>
<tr>
<td><strong>Interaction with service organisation</strong></td>
</tr>
<tr>
<td>• Interactive communication between employees and customers</td>
</tr>
<tr>
<td>• Interaction with the physical and technical resources of the organization needed in the service production process</td>
</tr>
<tr>
<td>• Interaction with other consumers involved in the process</td>
</tr>
<tr>
<td><strong>Customer participation</strong></td>
</tr>
<tr>
<td>• How well the customer is aware about the process of service delivery and his / her role.</td>
</tr>
<tr>
<td>• How well the customer is prepared to share information</td>
</tr>
<tr>
<td>• How well the customer is willing to share or use service equipment</td>
</tr>
</tbody>
</table>


**Market Communication of the Service Offering**

A favourable image enhances the service experience and a bad image may even destroy it. Because of this, the issue of management of image through market communication becomes an
integral part of the service product. Apart from the conventional methods of promotion, corporate image and word-of-mouth are equally (or more) important. A negative comment from a fellow customer is more than enough to neutralize the effect of the service marketer’s efforts of mass media advertising, media blitz and direct promotions.

The important aspect to consider in marketing service as a product is to understand what benefits and satisfaction the consumer is seeking from the service. For example, from the view-point of a Café Coffee Day restaurant’s manager, the outlet simply provides coffee and snacks. But the customers visiting the restaurant may be seeking an outing, an experience, or an atmosphere different from home, relaxation, socialization, entertainment or even status, in addition to the coffee and snacks. The marketing of services can be a success only if there is a match between the service product from the consumer’s view-point and the service provider’s (supplier’s) view-point. To find this match, the service will have to be analysed at the following levels:

1. The Customer Benefit Concept
2. The Service Concept
3. The Service Offer
4. The Service Form
5. The Service Delivery System

1. Customer Benefit Concept

The service product offered in the market must have its origin in the benefits sought by the customers. But the problem is that customers themselves may not have a clear idea of what they are seeking or they may find it difficult to express or it may be a combination of many benefits and not a single one. The benefits sought may also change over a period of time. This change in customers may come about by a satisfactory or unhappy experience in utilising the service, through increased sophistication in service use and consumption, and changing expectations. All these make the issue of marketing a service product very complex.

2. Service Concept

The service concept defines the specific customer benefits which the service offers. At the generic level, the service concept refers to the basic service which is being offered. For example, a theatre like Ranga Sankara or Ravindra Kalakshetra in Bangalore may offer entertainment and recreation. But within this broad framework, there can be specific choice paths for satisfying the entertainment objective, like drama, musical concerts, mime, poetry recitation and classical dance (Bharata Natyam or Yakshagana). Defining the service concept helps the service provider to answer the basic question, “What business are we in?”

3. Service Offer

After defining the business in which the provider is operating, the next step is to give a specific shape and form to the basic service concept. Taking the same example of the theatre, the service concept is to provide entertainment. The service offer is concerned with the specific elements that will be used to provide entertainment – drama, music, mime, poetry recitation and dance. In the category of musical concerts the choice may be vocal or instrumental; within vocal, whether classical or light and within classical, whether Carnatic, Hindustani or Western. While these represent the intangible items of the service offer, the physical infrastructure of the theatre, in terms of its seating capability, comfortable seats, quality and acoustics, good air conditioning, snack bar and toilets are the tangible items. The tangible aspects can be controlled by offering the best possible benefit, but the quality and
performance of the actors, singers and musicians cannot be controlled. Theoretically, a manager must control both the tangible and the intangible components. But in practice he can control only the tangible components (e.g., maximum duration of the recital, brief introduction before each dance item, etc.)

4. Service Form

Another aspect to be considered is about the form in which the services are to be made available to customers. Should all the shows of the theatre be available in a package deal against an annual membership fee or a season ticket? Should there be daily tickets with the consumer having freedom to watch any one or more performances being staged on that particular day? Or should each performance have a separate entrance ticket, with a higher priced ticket for a well-known performer? Service form refers to the various operations relating to each service element. The manner in which they are combined gives shape to the service form.

5. Service Delivery System

When a customer goes to his bank to withdraw money from his account, he either uses a cheque or a withdrawal slip in which all particulars are filled in, signed, and handed over to the clerk, who gives him a token. The customer waits for his turn. When called, he goes to the counter, where the clerk, after verifying the details and debiting his account, gives the customer his money. The cheque, or withdrawal slip, the token and the clerk constitute the service delivery system in this case. In a restaurant, the waiters are the elements of the delivery system. The two main elements in a delivery system are the people and the physical evidence. The competence and public relations ability of the bank staff represent the people component, while the bank building, the interior décor furniture, signage, counters, etc., are all elements of the physical evidence. The physical evidence components are also known as facilitating goods, and supporting goods. These are the tangible elements of the service and they exert an important influence on the quality of the service as perceived by the consumers.

Pricing

For tangible products, the term ‘price’ is used for all kinds – FMCG, clothes, durables, land, building, etc. But, in the case of services, different terms are used for different services. Some common examples are given below:

<table>
<thead>
<tr>
<th>Service</th>
<th>Price Term Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theatre</td>
<td>Ticket</td>
</tr>
<tr>
<td>Legal service</td>
<td>Fee</td>
</tr>
<tr>
<td>Financial</td>
<td>Interest</td>
</tr>
<tr>
<td>Stock broker</td>
<td>Commission</td>
</tr>
<tr>
<td>Transport</td>
<td>Fare</td>
</tr>
<tr>
<td>Insurance</td>
<td>Premium</td>
</tr>
<tr>
<td>Property usage</td>
<td>Rent</td>
</tr>
<tr>
<td>Employee service</td>
<td>Salary/Wages</td>
</tr>
<tr>
<td>Education</td>
<td>Tuition fees</td>
</tr>
<tr>
<td>Utilities (telephone, electricity)</td>
<td>Tariff</td>
</tr>
</tbody>
</table>
While fixing prices of services, the perishability characteristic has to be considered seriously because fluctuations in demand cannot be met through stock inventory like physical products. In order to offset the perishable characteristic of services, hotels and airlines offer lower rates in off-season. The intangibility element in services also creates difficulties in pricing decisions. Fees for lawyers, doctors and consultants cannot be uniform and will vary according to their expertise and also the nature of service provided. Another aspect to be considered in pricing services is that for many services prices are subject to regulations, either by the government or by trade associations. Bank interest rates, bank charges, electricity and water tariff, telephone, rail and air transport fare, etc., are controlled by the government. In such cases, the service provider does not have any freedom to fix the prices on his own.

Generally two methods are used to decide prices in services – cost-based pricing and market-oriented pricing. In cost-based pricing, the prices have to conform to government or industry guidelines for many services. The market-oriented pricing may be at par with competitors’ or below that. Another alternative, customer-oriented pricing is varied according to customer’s ability to pay. For example, airlines have economy class and executive class; hotels have normal rooms, deluxe rooms, suites, etc., at different tariff.

Services are usually sold using the following pricing methods:

1. **Differential or flexible pricing.** This involves charging different prices for different customers, based on their ability to pay, period or time slot (peak season, off-season, etc.), and place difference (balcony and front rows in a theatre, economy and executive classes in a plane).

2. **Discount pricing.** This is the practice of offering a commission or discount to dealers, advertising agencies, stock brokers, real estate dealers and travel agents for their services. Introductory discounts can be offered to customers also as a promotional tool.

3. **Diversionary pricing.** In this method, a low price is charged for a basic service to attract customers. A restaurant may offer a mini-meal at a low price but without a soft drink or a sweet dish. The customer who is attracted by the low price may be tempted to buy a soft drink or an ice-cream or some additional dish. He will thus end up buying more than just the mini-meal.

4. **Guaranteed pricing.** This is a method where the fee or commission is to be paid only after the results are achieved. Employment agencies charge their fee only when a person actually gets a job. Similarly, a realtor or a real estate agent charges his commission only after the deal is made.

5. **High price maintenance pricing.** This is a method where high prices are charged, which is associated with the quality of the service. Many specialist doctors, leading lawyers and other professionals follow this pricing strategy.

6. **Loss leader pricing.** This strategy is one in which an initial low price is charged in the hope of getting more business at subsequently better prices. This method has the danger of the initial low price becoming the standard for all times to come.

7. **Offset pricing.** This has similarity to diversionary pricing in which a basic low price is charged but the extra services are priced rather high. For example, a gynecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but may charge extra for attending to the actual delivery and post-delivery check up visits.
Promotion

While designing the promotion strategy for services, a basic thing to be remembered is that the customers rely more on subjective impression rather than concrete evidence. This is because of the inherent intangible nature of services. Also, the customer is likely to judge the quality of service on the basis of the performer rather than the actual service. Since it is difficult to sample the service before paying for it, the customer finds it difficult to evaluate its quality and value. Because of all these factors, buying a service is a more risky business than buying a product. The marketing manager should, therefore, design a promotion strategy which will help the customer overcome these constraints. The four methods used for promoting services, viz., advertising, personal selling, publicity, and sales promotion are the same as used in the promotion of products.

Advertising

Most services like entertainment (cinema, theatre), passenger and freight transport (roadways – TVS, ABT – airlines, railways), hotels, tourism and travel, banks and insurance advertise heavily in newspapers, internet, e-mail, SMS, etc., radio and TV channels to promote greater usage and attract more customers. On the other hand, a few service professionals like doctors, lawyers and advertising agencies rarely use advertising to increase their customers. These service providers rely on word-of-mouth for attracting new customers. Educational services like schools and colleges nowadays use advertising to canvass for admissions highlighting their facilities and academic standards.

Personal Selling

In the case of some services, personal selling is used to promote by sending professionals to the clients instead of salesmen. Management consultants, advertising agencies, and travel agencies do this for canvassing new business from major clients. This method is, of course, expensive. Some services arrange for tie-ups with other services. For example, management consultants or insurance companies tie up with banks, and hotels tie up with airlines or tourism department.

Publicity

Publicity is used by some services by holding press conferences or by sponsoring events like fashion shows, musical programmes, sports, etc.
Sales Promotion

Many types of sales promotion techniques are used to promote services. For example, travel companies like Cox & King offer a free ticket for spouse and 2 children below 12 years for a foreign trip package. Fly now, pay later schemes are introduced by airlines in the off-season periods. Some doctors charge a reduced fee on subsequent visits to retain loyalty of the patients. Professional colleges offer free laptops and foreign trips for MBA students. These offers are also used to offset the perishability characteristic of services.

Distribution (Placement)

Regarding the distribution strategy for services, the major decision relates to the issue of location of the services, to ensure that maximum numbers of customers are attracted. The inseparability characteristic of services like the doctors, professors, consultants, and mechanics poses a distribution problem since they are able to service only a limited, localised market. But when awareness about the quality, dependability and retallability spreads by word-of-mouth, people from other localities will also patronize these services. Another characteristic of services which affects the distribution strategy is the fixed location of services like universities, colleges, banks, restaurants and hospitals, which necessitates the customer to go to the service location. Parcel delivery at the customer’s doorstep by some services like Domino’s, PIZZA HUT, Nandhini Hotels, etc are ways of smounting this constraint. Some hospitals like Apollo, Sagar, etc have opened smaller clinics in different locations to cater to localized demand for its services. Banks, nowadays, provide ATMs and Internet banking and mobile banking to facilitate customers.

Some services operate through intermediaries. For example, airlines, property, and life insurance have agents or dealers for canvassing and sales. Franchising is one popular distribution strategy. In India, many services use franchising to expand their network in several locations. For e.g., PIZZA HUT, Domino’s, Nilgiri’s, Kwality-Walls ice-cream parlours, StayFit and Gold’s Gym, etc. have franchise arrangements.

People

People, as the human element, constitute an important dimension in services marketing in their role as both performers of service and as customers. People as performers are important because customers see a company through its employees. The employees represent the first line of contact with the customer. Therefore, the employees must be polite, courteous, well-informed, and well-behaved, and must provide the kind of service that wins the approval of the customers. The behaviour and attitude of the service employees will have an important influence on the customers’ overall perception of the service and its quality and he/she can rarely distinguish between the actual service rendered and the human element involved in it. This is evident in the example of a customer calling a service provider over the phone, and is asked to hold on for a long time – a frustrating experience for the customer.

Because of the above reasons, the service marketer has to be concerned with improvement of quality and performance of the service personnel. Careful selection and thorough training, laying down service standards and norms for good, consistent behaviour and appearance are important aspects to be looked into.

Customers are important because they are a source of influencing other customers. For example, in the case of doctors, lawyers, consultants and even restaurants and hotels, one satisfied customer will lead to a chain reaction bringing other new customers. On the other hand, a dissatisfied customer will
spread adverse word-of-mouth which will deter others in patronizing the particular service provider. Customer satisfaction is, therefore, very important in service marketing also.

**Physical Evidence**

Physical evidence refers to the environment in which service is provided. It is also called the ‘servicescape’. Cleanliness in a doctor’s clinic, exterior appearance and interior décor of a restaurant, the comfort of air conditioning in a cinema theatre, all contribute towards the image of the service (and the company running the service) as perceived by the customer. The common factor in these is that they are all physical, tangible and controllable aspects of a service provider. These constitute the physical evidence of the service. There are two kinds of physical evidence – peripheral evidence and essential evidence.

**The Servicescape of Leela Palace Kempinski, Bengaluru**

Peripheral evidence is tangible items of the service which are possessed by customers as a part of the purchase of service but by themselves are of no value. Airline ticket, boarding pass, cinema ticket, bank cheque book and pass book, receipt for a confirmed booking in a hotel, menu card in a restaurant, etc. are examples of peripheral evidence. These are tangibles which add on to the value of essential service. Such evidences must be designed keeping in view the overall image which the service provider wishes to project. Some gifts and complimentary take-aways are also given by some services which serve as reminder value to customers.

While most peripheral evidences are possessed and taken away by the customer, the essential evidence cannot be possessed by them. The building, its size and design, interior layout and décor, logo, signages, lobby of hotels, etc. are constituents of the essential service. These are very important in determining the atmosphere and environment of the service provider. Differentiation of service can be achieved by suitably modifying the essential evidence. For example, the ambience of a five-star hotel and an ordinary hotel, a government hospital and a deluxe hospital like Apollo, the cheap classic cinema hall and the luxurious Gold Class hall in PVR cinema, etc. are examples of such differentiation brought about through essential evidence. The service marketer can thus use physical evidence to
build a strong association in the minds of customers and also differentiate its services from the competitors. It can be effectively used to create an ideal environment for the service.

Process

In service organizations, the system by which the customer receives delivery of the service constitutes the process. For example, in fast food outlets like McDonald’s, the process comprises of buying the coupons at one counter and picking up the food against the coupons at another self-service counter. In a bank, the process involves tendering the cheque at one counter, collecting a token, and as the customer’s turn comes, getting the cash from the teller counter.

Services can be described on the basis of type of process used in the delivery of the service. The three kinds of delivery processes that are applicable in the case of service products are line operations, job shop operations and intermittent operations.

Self-service restaurants (McDonald’s, Darshinis, etc.) and supermarkets are examples of line operations. The consumer moves along logically arranged operations which are in a sequence. Examples of McDonald’s and a bank given above are of this type. This kind of delivery process is relevant when the service provided is reasonably standardized and the customer’s requirement is of a routine nature.

In other cases, when the consumers require a combination of services using different sequences, the job shop type of operation is more useful. Most of the hospitals, restaurants, and educational institutions usually have this type of delivery process. In a hospital, for example, some patients need only consultation in the outpatient department, while some others may need consultation as well as medication, or X-ray. Some patients require hospitalization for observation, surgery, medication or detailed investigations. All these categories of consumers require a different combination of the hospital’s services. In a restaurant, similarly, consumers order their own combination of dishes from a-la-carte menu. A college may offer courses for full-time students, as well as for working people on part-time (evening classes), or through distance education.

Intermittent operations are useful when the type of service is rarely repeated. Legal and management consultancy service providers use this kind of delivery system. The service will be only for one case or one project at a time, which will be highly customized. The advertising agencies also use the intermittent delivery process since each advertising campaign requires a unique set of input factors.

The service marketer has to emphasize his attention on the three additional dimensions – people, physical evidence and process – while evolving the marketing strategy, and has to combine them with the usual 4Ps to achieve a harmonious blend, to satisfy the customers and to be successful in business.

Marketing Challenges for Service Industry

Because of the basic characteristics of services, marketers of services face some very real and quite distinctive challenges. According to Zeithaml and Bitner, the following are the major challenges for service marketers:

- How can service quality be defined and improved when the product is intangible and nonstandardized?
- How can new services be designed and tested effectively when the service is essentially an intangible process?
- How can the firm be certain it is communicating a consistent and relevant image when so many elements of the marketing mix communicate to customers and some of these elements are the service providers themselves?
INTRODUCTION TO SERVICES

- How does the firm accommodate fluctuating demand when capacity is fixed and the service itself is perishable?
- How can the firm best motivate and select service employees who, because the service is delivered in real time, become a critical part of the product itself?
- How should prices be set when it is difficult to determine actual costs of production and price may be inextricably intertwined with perceptions of quality?
- How should the firm be organized so that good strategic and tactical decisions are made when a decision in any of the functional areas of marketing, operations and human resources may have significant impact on the other two areas?
- How can the balance between standardization and personalization be determined to maximize both the efficiency of the organization and the satisfaction of its customers?
- How can the organization protect new service concepts from competitors when service processes cannot be readily patented?
- How does the firm communicate quality and value to consumers when the offering is intangible and cannot be readily tried or displayed?
- How can the organization ensure the delivery of consistent quality service when both the organization’s employees and the customers themselves can affect the service outcome?

QUESTIONS FOR DISCUSSION

1. Discuss the contribution of the service sector to Indian Economy.
2. What are the reasons for the growth of the service sector in India?
3. Explain how technology has been a driving force for growth of services.
4. What are the special characteristics of services as compared to products?
5. Discuss the significance of the service marketing triangle.
6. Explain the service marketing mix and its components.
7. What is the role of GATTS in the service sector of India?

CASE STUDY: EXAMPLE OF AN INNOVATIVE SERVICE: ATMs

An Automated Teller Machine (ATM) is a computerized telecommunication device that provides the customers of a bank with access to banking transactions in a public space without the need for a cashier, clerk or bank teller. ATMs are known by various other names including Any Time Money, Automated Banking Machine, Cashpoint, Cash Machine and a ‘hole in the wall’ (in England).

On most modern ATMs, the customer is identified by inserting a plastic smart card with a chip, that contains a unique card number and some security information such as an expiry date or card verification value code (CVV). Automation is provided by the customer entering a personal identification number (PIN).

Using an ATM, customers can access their bank accounts even from far away locations. They can make cash withdrawals, check their account balances, get mini statements, order cheque books and so on.

The idea of self-service in retail banking developed through independent and simultaneous efforts in Japan, Sweden, the United Kingdom and the United States of America. In the U.S.A., Luther George Simjian has been credited with developing and building the first cash dispenser machine called
Bankograph (1961). This was an automated cash envelope deposit machine, and did not have cash dispensing features. A first cash dispensing device was used in Tokyo in 1966. In 1967, Barclays Bank opened its first ATM in London. The machine was invented by John Shepherd-Barron, and the idea of a PIN stored on the card was developed by a British engineer James Goodfellow in 1965. The essence of this system was it enabled the verification of the customer with the debited account without human intervention.

The latest networked ATM was pioneered by Donald Wetzel who worked for a company called Docutel in the U.S.

The first modern ATM came into use in December 1972 in the U.K. (made by IBM) installed by Lloyds Bank, and named Cashpoint. The ATMs which are available today are more advanced, multi-function machines that complement a bank branch’s capabilities.

ATMs are placed in locations such as shopping malls, airports, railway stations, bus stations, big retail stores, petrol bunks, and restaurants, or anywhere frequented by large numbers of people. Most ATMs are connected to interbank networks, enabling people to withdraw and deposit money from machines not belonging to the bank where they have their accounts or in the countries where their accounts are held (enabling cash withdrawals in local currency). Some examples of interbank networks include NYCE, PULSE, PLUS, Cirrus, STAR and LINK.

An approximate estimate of ATMIAs place the number of ATMs in use currently all over the globe at over 2.2 million, or 1 ATM per around 3000 people in the world. The world’s highest installed ATMs are the one in Nagchu Country, Tibet at 4500 metres above sea level, by the Agricultural Bank of China, and the ATM installed at Nathu La Pass, India by the Union Bank of India, at 4310 metres above sea level. Israel has the world’s lowest installed ATM at Ein Bokek at the Dead Sea, installed by a grocery store at 421 metres below sea level. (Source: Adapted from Wikipedia)

**State-run Banks Led by State Bank of India to Install 40,000 ATMs**

State-run banks led by State Bank of India plan to install 40,000 automated teller machines, or ATMs, across the country to widen their reach in what will be the biggest such exercise by local lenders. This time, all the government-owned banks will join hands to install what are known as white-label ATMs, which are not owned by any single bank and where the entire operation is outsourced.

SBI has sought offers from vendors for setting up 40,000 ATMs, twice the number the bank currently has. SBI owns the maximum number of ATMs in India. Of the 74,743 ATMs in the country, SBI had 20,084 at the end of March 2011, according to a survey by Atos Worldline, which specialises in electronic payment services.
Recently, a tender was issued on behalf of all state-run banks within days of the finance ministry directing them to adopt a unified approach on installing ATMs. A senior finance ministry official told ET that the government was in talks with the Reserve Bank of India for issuing guidelines on white-label ATMs.

The new ATMs will be rolled out in a phased manner in 2012-13. At least 25% of the 40,000 ATMs will be installed in the first quarter, 40% in the second quarter, 25% in the third quarter and the rest by the end of the fourth quarter. A banker, who did not want to be named, said the ATMs will be installed across geographies, with each geographical area being allotted to various state-owned banks depending on their presence in such locations.

Going by the tender issued by the SBI, the selected vendor will have to enter into separate agreements with each individual bank. There is resistance from the RBI to approve white-label ATMs since they are owned by non-banking entities, which means they do not fall under the purview of the banking regulator.

In case of any dispute between such entities and banks, the RBI may not be able to step in given the ambiguity on the regulation of such entities. RBI’s worries also stem from the fact that white-label ATMs do not carry the brand name of any bank, making it difficult for a customer to know whom to contact in case there is a problem with the cash-dispensing machine. To resolve this dilemma, there is a proposal to make the lead bank in an area responsible for the ATMs in their region.

The lead bank will pay the vendor and take ownership of the ATM. Bankers are scheduled to meet senior finance ministry officials to work out the detailed plans relating to the installation of the ATMs. White-label ATMs may provide stiff competition to private banks, such as HDFC Bank, ICICI Bank and Axis Bank, which are among the top-five banks in the ATM segment. SBI has the largest share in the pie, with 27% of the ATMs, followed by Axis Bank and ICICI Bank, with 8% each. HDFC Bank, Punjab National Bank and SBI’s associate banks have a share of 7% each.

(Source: Economic Times Bureau, Dec. 1, 2011)