

Chapter -I

Service Marketing

Introduction

Service is the action of doing something for someone or something. It is largely intangible (i.e. not material). A product is tangible (i.e. material) since you can touch it and own it. A service tends to be an experience that is consumed at the point where it is purchased, and cannot be owned since it quickly perishes. A person could go to a cafe one day and have excellent service, and then return the next day and have a poor experience.

Key Economic Indicators about India

- ❖ **GDP:** \$2690 billion (\$1= Rs. 69/- (approximately))
- ❖ **Growth:** Estimated 7-8 percent or higher in 2005-06; 7 percent in 2004-05
- ❖ **Breakdown:** Services equal 50 percent of the GDP; industry and agriculture equal 50 percent
- ❖ **Ranking:** 10th largest economy in the world and one of the fastest growing; fourth largest in purchasing-power parity terms
- ❖ **Per capita income:** \$640 in 2004-05, (almost double the figure of two decades ago). Of the 1.1 billion people, 39 percent live on less than \$1 per day.
- ❖ **Purchasing power:** In 2005, approximately 170-300 million people had higher purchasing power, thus creating a growing middle-class consumer population
- ❖ **Youth Power:** Over 58 percent of the Indian population is under the age of 20 i.e. over 564 million people, it nearly twice the total population of the United States

India at a Glance

- ❖ **Population:** 1.1 billion (Urban population - 28.4 percent)
- ❖ **Retail Market. Size:** \$286 billion (only 3.9 percent is organized retail). Retail trade is booming in the country due to increasing disposable incomes of middle and upper middle class
- ❖ **Growth of Malls:** 375 shopping malls by 2007 from 25 in 2003; estimated space of the malls is 90 million sq. ft.
- ❖ **Growing Middle-class:** 300 million and estimated to be growing at 5 percent annually

Did you know that India: is the world's second largest small car market

- ❖ Is one of only three countries that makes its own supercomputers
- ❖ Is one of six countries that launches its own satellites; one hundred of the Fortune
- ❖ 500 R & D facilities are available in India
- ❖ Has the second largest group of software developers after the U.S.
- ❖ Lists 5,000 companies on the Bombay Stock Exchange; only the NYSE has more
- ❖ Is the world's largest producer of milk, and second largest producer of food, including fruits and vegetables

Services Marketing

Services marketing is marketing based on relationship and value. It may be used to market a service or a product.

Marketing a service-base business is different from marketing a product-base business.

There are several major differences, including:

1. The buyer purchases are intangible
2. The service may be based on the reputation of a single person
3. It's more difficult to compare the quality of similar services
4. The buyer cannot return the service
5. Service Marketing mix adds 3 more P's, i.e. people, physical environment, process service and follow-through are keys to a successful venture.

When one markets a service business, one must keep in mind that reputation, value, delivery of "managing the evidence" refers to the act of informing customers that the service encounter has been performed successfully. It is best done in subtle ways like providing examples or descriptions of good and poor service that can be used as a basis of comparison. The underlying rationale is that a customer might not appreciate the full worth of the service if they do not have a good benchmark for comparisons.

In economics and marketing, a **service** is the non-material equivalent of a good. **Service provision** has been defined as an economic activity that does not result in ownership, and this is what differentiates it from providing physical goods. It is claimed to

be a process that creates benefits by facilitating a change in customers, a change in their physical possessions, or a change in their intangible assets.

By supplying some level of skill, ingenuity, and experience, providers of a service participate in an economy without the restrictions of carrying stock (inventory) or the need to concern themselves with bulky raw materials. On the other hand, their investment in expertise does require marketing and upgrading in the face of competition which has equally few physical restrictions. Providers of services make up the tertiary sector of industry.

DEFINITION OF SERVICE MARKETING

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 consist of activities, benefits or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything.”*— **Philip Kotler**

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 organizational objectives”.

“Activities, benefits and satisfactions, which are offered for sale or are provided in connection with the sale of goods” (**American Marketing Association, Committee**)

“Services include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser” (**Quinn, Baruch and Paquette, 1987**).

Service is the action of doing something for someone or something. It is largely intangible i.e. not material). A product is tangible (i.e. material) since you can touch it and own it. A service tends to be an experience that is consumed at the point where it is purchased, and cannot be owned since it quickly perishes. A person could go to a café one day and have excellent service, and then return the next day and have a poor experience.

OBJECTIVES OF SERVICE MARKETING

The four primary objectives of service marketing:

1. Building trust,
2. Empowering service delivery personnel,
3. Establishing uniform processes, and
4. Promoting customer satisfaction.

1) Building Trust

Since services are intangible, determining value and quality can be difficult. Building trust in customer's eyes through tangible signs of quality is one of the principle objectives of service marketing. Service Marketing identifies several tangible indicators of quality and value, including "personal interaction, trusted recommendations, clear communications, equipment used or processes followed, pricing, and the physical environment in which the business operates."

2) Empowering service delivery Personnel

The production and consumption of services are inseparable, so that a customer's experience of a service occurs simultaneously with its delivery. As such, service delivery personnel play a critical role in customer satisfaction and retention. Service marketing ensures that they are able to communicate effectively with customers, respond appropriately to feedback and instill confidence throughout the service delivery process.

3) Establishing Uniform Processes

The provision of services is inherently variable, since each instance is distinct from all others, varying by service delivery personnel, the circumstances of delivery, and the service environment. In order to minimize variation, service marketers must establish uniform processes to provide consistent delivery services.

4) Promoting Customer Satisfaction

Services are perishable, meaning they cannot be stored for later use. If the ticket you purchased for a concert goes unused, its value is lost. According to Clarke, the best way to manage variable demand is by cultivating repeat business from satisfied customers so promoting customer satisfaction should be a primary goal of service marketers.

NATURE OF SERVICE MARKETING

It is utmost important to explore the distinctive features of services, because recognition of these special characteristics will provide insights for enlightened and innovative management. One reason for the poor quality of service levels across different service industries is that managers often tend to solve service marketing problems with tools and techniques that are essentially meant for tangible products. Services have a number of unique characteristics that make them different from products.

Some of most commonly accepted characteristics are as follows:

(i) Intangibility: The most basic and universally cited characteristic of services is intangibility, because services are performances or actions rather than objects, they cannot be seen, felt, tasted, or touched in the same manner that we can sense tangible goods. For example, when we buy a cake of soap, we can see, feel, smell and use to check its effectiveness in cleaning. But, when we pay fees for a semester in the university, we are paying for the benefits of deriving knowledge, skills and education which are delivered to us by teachers. Teaching is an intangible service. When we travel by a plane, the benefit which we are deriving is a service (transportation) but, it has some tangible aspects such as the particular plane in which we fly (Boeing, Avro, Concorde, etc.) and the food and drink which are served.

(ii) Inseparability: In most cases a service cannot be separated from the person or firm providing it. A service is provided by a person who possesses a particular skill (singer, doctor, etc.), by using equipment to handle a tangible product (dry cleaning) or by allowing access to or use of a physical infrastructure (hotel, train, etc.). Services are typically produced and consumed at the same time. The relationship between production and consumption, therefore, dictates that production and marketing are highly integrated processes. The telephone company produces telephone service while the telephone user consumes it. A plumber has to be physically present to provide the service; the beautician has to be available to perform the massage. The service provider and the client are often physically present when consumption takes place.

(iii) Heterogeneity: Since services are performances frequently produced by human beings, no two services will be precisely alike. The human element is very much involved in providing and rendering services and this makes standardization a very difficult task to achieve. The doctor who gives us complete attention in one visit may behave a little differently in next visit. The new bank clerk who encashes our cheques may not be as efficient as the previous one and we may have to spend more time for the same activity.

(iv) Perishability: Perishability refers to the fact that services cannot be saved, stored, resold, or returned. Since services are deeds, performances or act whose production and consumption takes place simultaneously, they tend to perish in the absence of consumption. Goods can be stored and sold at a later date in the absence of a customer. Services, on the other hand, go waste if they are not consumed. A seat on an airplane or in a restaurant, an hour of a professor's time, or telephone line capacity not used cannot be reclaimed and used or resold at a later time.

A primary issue that marketers face in relation to service perishability is the inability to hold inventory. Demand forecasting and creative planning for capacity utilization are, therefore, important and challenging decision areas.

(v) No Transfer of Ownership: When we buy a product, we become its owner-be it a pen, book, shirt, TV or car. In the case of a service, we may pay for its use, but we never own it. By buying a ticket one can see the evening film show in local cinema theatre; by paying wages one can hire the services of a chauffeur who will drive the car; by paying the required charges we can have a marketing research firm survey into the reasons for our product's poor sales performance, etc. In case of a service, the payment is not for purchase, but only for the use or access to or for hire of items or facilities; and transfer of ownership does not take place.

The above cited characteristics of services make it unique and that is why services receive special treatment from marketers. There is general agreement that inherent differences between goods and services exist and that they result in unique, or at least different, management challenges for service businesses and for manufacturers that offer services as a core offering.

IMPORTANCE OF SERVICES MARKETING

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 Specialization

Organisations have now no option but to promote specialization 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 specialization in management requires the services of experts and consultants in almost all areas. It is right to mention that due to growing specialization, 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 centre's, beauty parlors etc. The change in lifestyles creates new waves in the demand for specialized 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 favor 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 professionalized in which only the world-class human resources can get a place. This will lead to greater efficiency in service organizations. 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.

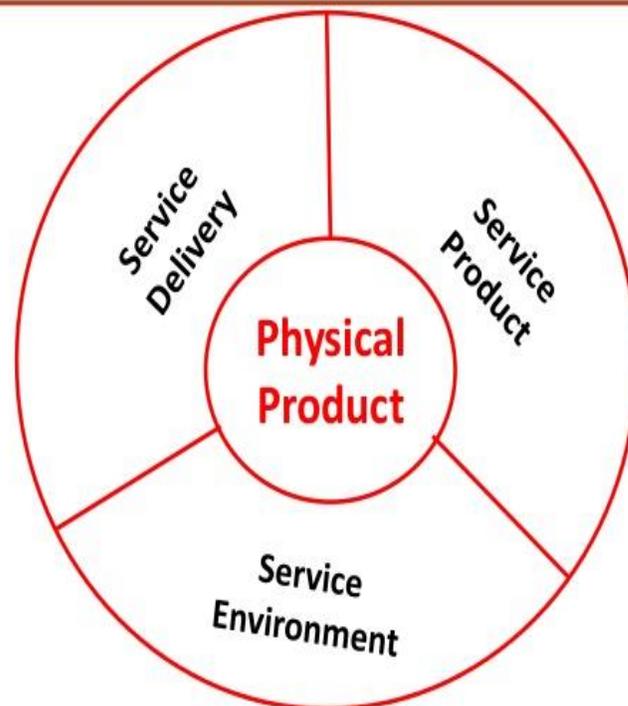
7. Increasing Governmental Activities:

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.

Components of service marketing:

The service may be divided into four components, namely, 1. Physical product 2. Service product 3. Service environment and 4. Service delivery. These components must be properly managed in order to meet customer's needs and wants.

COMPONENTS OF SERVICE



1. **The Physical Product.** The various products marketed by a firm involve the physical transfer of ownership of those products. They are tangible and their quality is standardized. For Example, physical products include T.V., Radio, Refrigerators, Computers, Hair oil, Vacuum Cleaner, Washing Machine, etc.
2. **Service Product.** A service is an activity or benefit that one party can offer to another which is essentially intangible in nature. Service involve some interaction with customers without effecting transfer of ownership. For example, people visiting exhibitions, trade fairs are allowed to inspect the consumer durables without being approached by sales representatives. Salesmen are trained in making proper approach to the customer visiting their showrooms.
3. **Service Environment.** The potential customers form an impression about the service on the basis of service environment. The service environment represents the physical back drop that surrounds the service. For example, providing hygienic food is the core service in a hotel or restaurant. Customers expect the restaurants to be maintained clean, offer flexible dining hours prompt service, soft music, décor, exotic menu etc.
4. **Service Delivery.** The Service delivery is one of the important components of service. Service delivery is of great importance to the customer's overall perception about the quality of service. The service provider should give due consideration to the way service is rendered to customers. Services are created as they are consumed.

CLASSIFICATION VARIOUS TYPES OF SERVICES

In order to be able to make a clear and relevant **classification of services**, we would first need to understand the concept of the word itself. Services usually refer to processes and not physical products.

To understand more, let us first discuss the difference between goods and services.

Difference between Goods and Services

In economics, goods and services are often pronounced in the same breath. These are offered by the companies to the customers to provide utility and satisfy their wants. At present, the success of the business lies in the combination of best quality of goods and customer oriented services. '**Goods**' are the physical objects while '**Services**' is an activity of performing work for others.

DISTINTION BETWEEN GOODS AND SERVICES:

Basis for Comparison	Goods	Services
Meaning	Goods are the material items that can be seen, touched or felt and are ready for sale to the customers.	Services are amenities, facilities, benefits or help provided by other people.
Nature	Goods are Tangible	Services are Intangible
Transfer of ownership	Goods should be transfer to one person to another	Services are not transferable
Evaluation	Very simple and easy to evaluate	It is more Complicated
Return	Goods can be returned.	Services cannot be returned back once they are provided.
Separable	Yes, goods can be separated from the seller.	No, services cannot be separated from the service provider.
Variability	Goods are more Identical	Services are Diversified from one to another
Storage	Goods can be stored for use in future or multiple uses.	Services cannot be stored.
Production	There is a time lag between	Production and Consumption

and Consumption	production and consumption of goods.	of goods occurs simultaneously.
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CLASSIFICATION OF SERVICE PROVIDERS:

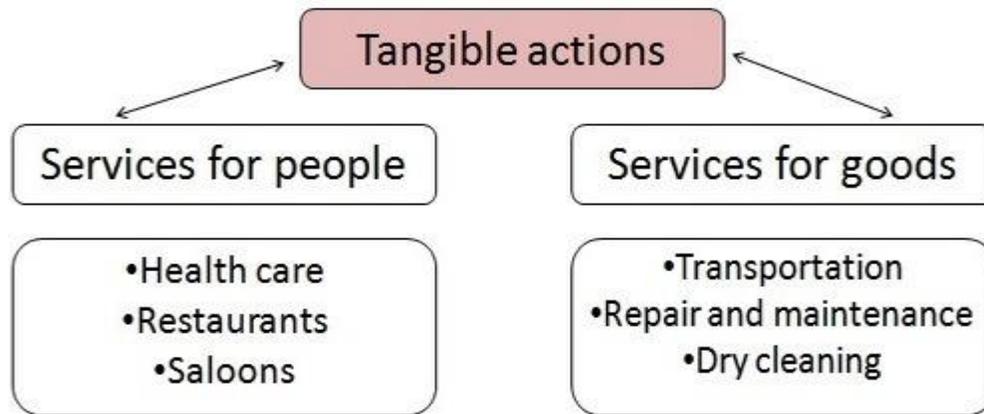
Some services may include people whereas other services (like online services) may include objects which are managed by people.

Examples of services which include people can be a hair salon, education, theater, restaurants, and public transportation. On the other hand services that include objects include repairs and maintenance, dry cleaning, banking, legal services, insurance, etc. The service processes can be either manual or mechanized or both.

It is possible to carry out a **classification of services** based on two general dimensions such as what is being processed, whether is it a person or an object, and how is it being processed? In other words, what is the nature of the process (tangible or intangible actions).

In terms of the people processing activities, the level of involvement of the people can vary significantly. Managers must think about processes/outputs in terms of what happens to customers and what is being created. For pricing this category of services, the non-financial costs, time, mental effort as well as fear and pain level must be identified.

Classification of services can be done on the basis of two factors which are further sub divided into two variables of people or object.

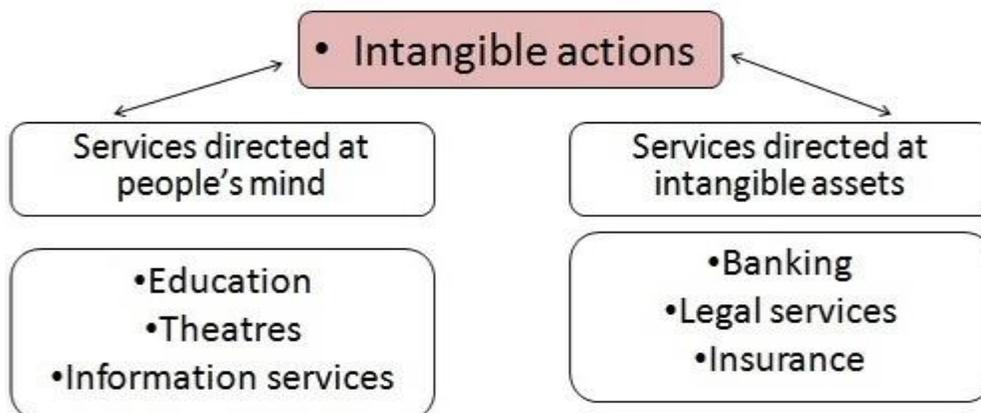


1) Classification of service based on tangible action

Wherever people or products are involved directly, the service classification can be done based on tangibility.

a) Services for people – Like Health care, restaurants and saloons, where the service is delivered by people to people.

b) Services for goods – Like transportation, repair and maintenance and others, where in services are given by people for objects or goods.



2) Classification of services based on intangibility

There are objects in this world which cannot be tangibly quantified. For example – the number of algorithms it takes to execute your banking order correctly, or the value of your life which is forecasted by insurance agents. These services are classified on the basis of intangibility.

a) Services directed at people's mind – Services sold through influencing the creativity of humans are classified on the basis of intangibility.

b) Services directed at intangible assets – Banking, legal services, and insurance services are some of the services most difficult to price and quantify.

The most intangible form of service output is represented by information processing. The customer's involvement in this type of service is not required. Generally, customers have a personal desire to meet face to face but there is no actual need in terms of the operational process. Consultancy services can be an example of this type of services where the relationship can be built or sustained on trust or telephone contact. However, it is more indicated to have a face-to-face relationship in order to fully understand the needs of the customer.

A more general classification of services based on the type of function that is provided through them can be as follows:

1. **Business services.**
2. **Communication services.**
3. **Construction and related engineering services.**
4. **Distribution services.**
5. **Educational services.**
6. **Environmental services.**
7. **Financial services.**
8. **Health-related and social services.**
9. **Tourism and travel-related services.**
10. **Recreational, cultural, and sporting services.**
11. **Transport services.**
12. **Other services not included elsewhere.**

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 producing and marketing.

The growth of service industries can be traced to the economic development of society and the social -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 gardening , plumbing, electrical repairs, etc.

2. More leisure time: The desire to use leisure time for relaxation 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 centers, 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, household appliances 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 computers parked development of programming, software development, and business process outsourcing (BPO) has grown due to this reason.

ROLE OF SERVICES IN ECONOMY

There is a growing market for services and increasing dominance of services in economies worldwide. Services are a dominant force in countries around the world as can be seen in the global feature. The tremendous growth and economic contributions of the service sector have drawn increasing attention to the issues and problems of service sector industries. There was a time when it was believed that the industrial revolution was the only solution to the problems of poverty, unemployment and other ills of society. Now, however, the service sector promises to fulfill the task. Services touch the lives of every person every day whether it is in the field of food services, communication, leisure services, maintenance services, travel, amusement parks, to name only a few. Services are increasingly being used by the corporate as well as the household sector. In Green revolution the man learnt to use, exploit and interact with nature (i.e., land and natural resources). In Industrial revolution man learnt to use, exploit and interact with equipments and machines for development. In case of services, man is learning to use, exploit and interact with other man-made resources for development.

SUMMARY

It is now obvious that most economies, the world over, are increasingly becoming service economies and, therefore, there is a need to manage services in the best possible way. Services are activities which are intangible in nature; therefore, standardization is one of the major issues in services. Also, services are typically delivered by employees of the service providers; therefore, there is also a need to manage the human resources. In addition, unlike in the manufacturing sector where production, distribution and consumption are separate activities, in service sector these three are simultaneous processes. In fact services are so varied and diverse that one needs to classify them to identify selected areas which need to be managed strategically.

KEYWORDS

Service: an activity or series of activities rather than things which has some element of intangibility associated with it, which involves some interaction between the customer and the service provider, and does not result in a transfer of ownership.

Intangibility: As services are performances or actions rather than objects, they cannot be seen, felt, tasted, or touched in the same manner that we can sense tangible goods.

Inseparability: A service cannot be separated from the person or firm providing it.

Heterogeneity: Since most of the services are being rendered by human beings, their performances cannot be mechanized and as a result no two performances of even a single service provider are identical.

Perishability: Services if not consumed simply perish away.