SERVICES MARKETING

(MBA IV SEMESTER-ELECTIVE IV)

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JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY ANANTAPUR

(14E00404) SERVICES MARKETING

The objective of the course is to provide a deeper insight into the marketing management of companies offering services as product.

1:Understanding services marketing & CRM: Introduction, services in the modern economy, Classification of services, marketing services Vs. Physical services, services as a system -Customer Relationship Marketing: Relationship Marketing, the nature of service consumption, understanding customer needs and expectations, Strategic responses to the intangibility of service performances.

2:Services market segmentations: The process of market segmentation, selecting the appropriate customer portfolio, creating and maintaining valued relations, customer loyalty. Creating value in a competitive market: Positioning a service in the market, value addition to the service product, planning and branding service products, new service development.

3:Pricing & Promotion strategies for services: Service pricing, establishing monetary pricing objectives, foundations of pricing objectives, pricing and demand, putting service pricing strategies into practice. Service promotion: The role of marketing communication. Implication for communication strategies, setting communication objectives, marketing communication mix.

4:Planning and managing service delivery: Creating delivery systems in price, cyberspace and time. The physical evidence of the service space. The role of intermediaries, enhancing value by improving quality and productivity.

5:Marketing plans for services: The marketing planning process, strategic context, situation review marketing strategy formulation, resource allocations and monitory marketing planning and services.

References:

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UNIT 1

Understanding services marketing & CRM

The service sector has increased dramatically in importance over the last decade, where it now accounts for nearly two-thirds of the economy by income and jobs. Deregulation of services, growing competition, fluctuations in demand, and the application of new technologies are presenting a considerable challenge to service organizations. Services marketing concepts and strategies have developed in response to the tremendous growth of service industries. Due to their increased importance, the world economies have drawn increasing attention to the issues and problems of service sector industries.

Definition

The American Marketing Association defines services as activities, benefits or satisfactions which are offered for sale and are provided with the sale of goods. This definition is considered to be too broad as products also offer benefits and satisfactions to customers. So there were attempts to differentiate physical products from services by defining characteristics which are prese4nt in services but are not found in case of physical products.

Kotler defines a service as “any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.” Abrain Payne defines it as “an activity which has some intangibility associated with it, which involves some interaction with customers or with property with it, which involves some interaction with customers or with property in their possession, and does not result in a transfer of ownership. A change in condition may occur and production of the service may or may not be closely associated with a physical product.”

A more mundane definition in the Indian context is provided by section 2(r) of the Monopolies and Restrictive Trade Practices Act, 1969. Under the said statute a “service means service which is made available to potential users and includes the provision of facilities in connection with banking, financing, insurance, chit fund, real estate, transport, processing, supply of electrical or other energy, board or lodging or both, entertainment, amusement or the purveying of news or other information”.

Stanton defines services and identifies factors which distinguish products from services which are accepted by most of he commentators. According to Stanton, “services are those separately identifiable, essentially activities that provide want-satisfaction, and that are not necessarily ties to the sale of a product or another service. To produce a service may or may not require the use of tangible goods. However, when such use in required, there is no transfer of the title (Permanent ownership) to these tangible goods”. Stanton emphasizes four characteristics which distinguish services from product. They are, intangibility, inseparability, heterogeneity and perishability and fluctuating demand. Kotler also emphasizes intangibility, inseparability, variability and perishability.

A service is an activity which has some elements of intangibility associated with it, which involves some interaction with customers or with property in their possession, and does not result in a transfer of ownership. A change in condition may occur and production of the service may or may not be closely associated with a physical product.

Put in the simple terms, ‘services are deeds, processes and performances’. The core offerings of hospitals, hotels, banks and utilities comprise primary deeds and actions performed for customers. Services are produced not only by service business such as those just described but are also integral to the offerings of many manufactured goods procedures. For example, care manufacturers offer warranties and repair services for their cars; Computer manufacturers offers warranties, maintenance contracts and training. all of these services are examples of deeds, processes and performances.

Characteristics of services

Stanton points out that the special nature of services stems form several distinctive characteristics and he singles our four for particular comment. They are:

1. Intangibility,
2. Inseparability,
3. Heterogeneity (Kotler terms this as variability), and
4. Perishability and fluctuating demand.

These four have been identified by Kotler also as the major characteristics greatly affecting the design of marketing programmes for services.

Intangibility

Services are essentially intangible. Because services are performances or actions rather than objects, they cannot be seen, felt, tested, or touched in the same manner that we can sense tangible goods. For example, health-care services are actions (e.g. surgery, diagnosis, examination, treatment) performed by providers and directed toward patients and their families. These services cannot actually be seen or touched by the patient, although the patient may be able to see and touch certain tangible components of the service (e.g. equipment, hospital room). In fact, many services such as health care are difficult for the consumer to grasp even mentally. Even after a diagnosis or surgery has been completed the patient may not fully comprehend the service performed.

Marketing implications

Intangibility presents several marketing challenges: Services cannot be inventoried, and therefore fluctuations in demand are often difficult to manage. For example, there is tremendous demand for resort accommodations in Simla / Ooty in May, but little demand in December. Yet resort owners have the same number of rooks to sell year-round. Services cannot be patented legally, and new service concepts can therefore easily be copied by competitors. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Decisions about what to include in advertising and other promotional materials are challenges, as is pricing. The actual cost of a "unit of service" are had to determine and the price/ quality relationship is complex.

Inseparability

Services are created and consumed simultaneously and generally they cannot be separated from the provider of the service. Thus the service provider – customer interaction is a special feature of services marketing.

Unlike the tangible goods, services cannot be distributed using conventional channels. Inseparability makes direct sales as the only possible channel of distribution and this delimits the markets for the seller's services. This characteristic also limits that scale of operation of the service provider. For example, a doctor can give treatment to limited number of patients only in a day.

This characteristic also emphasizes the importance of the quality of provider – client interaction in services. This poses another management challenge to the service markets. While a consumer's satisfaction depends on the functional aspects in the purchase of goods, in the case of services the above mentioned interaction plays an important role in determining the quality of services and customer satisfaction. For example, an airline company may provide excellent flight service, but a discourteous onboard staff may keep off the customer permanently from that company. There are exemptions also to the inseparability characteristic. A television coverage, travel agency or stock broker may represent and help marketing the service provided by another service firm.

Marketing implications

Because services often are produced and consumed at the same time, mass production is difficult if not impossible. The quality of service and customer satisfaction will be highly dependent on what happens in "real time", including actions of employees and the interactions between employees and customers.

Heterogeneity

This characteristic is referred to as variability by Kotler. We have already seen that services cannot be standardized. They are highly variable depending upon the provider and the time and place where they are provided. A service provided on a particular occasion is somewhat different from the same service provided on other occasions. Also the standard of quality perceived by different consumers may differ according to the order of preference given by them to the various attribute of service quality. For example, the treatments given by hospital to different persons on different occasion cannot be of the same quality. Consumers of services are aware of this variability and by their interaction with other consumers they also get influenced or influence others in the selection of service provider.

Marketing implications

Because services are heterogeneous across time, organizations, and people, ensuring consistent service quality is challenging. Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand fo he service.

Perish ability and Fluctuating Demand

Perish ability refers to the fact that services cannot be saved, stored, resold or returned. A seat on an airplane or in a restaurant, an hour of a lawyer's time, or telephone line capacity not used cannot be reclaimed and used or resold at a later time. This is in contrast to goods that can be stored in inventory or resold another day, or even returned if the consumer is unhappy.

Marketing implications

A primary issue that marketers face in relation to service perish ability is the inability to inventory. Demand forecasting and creative planning for capacity utilization are therefore important and challenging decision areas. The fact that services cannot typically be returned or resold also implies a need for strong recovery strategies when things do go wrong. For example, while a bad haircut cannot be returned, the hairdresser can and should have strategies for recovering the customer's good will if and when such a problem occurs.

Services Marketing Management

There are a number of areas of marketing management which do have special significance for services marketing. It is worth commenting on some of those aspects, as they are important to developing an awareness of problem and key issues in services marketing.

Productivity and quality

In striving to gain and maintain competitive advantage, both productivity and quality are of key importance. However, the nature of services implies that it is difficult to avoid a trade-off situation, when improvements in service productivity can lead to sacrifices in the level of quality. This is most sensitive in services marketing where people are the service delivers. If a bank cashier or travel agent needs to process customers more quickly to improve productivity, how can organisatoins ensure that there is not resulting drop in quality?

Service quality is measured on two levels:

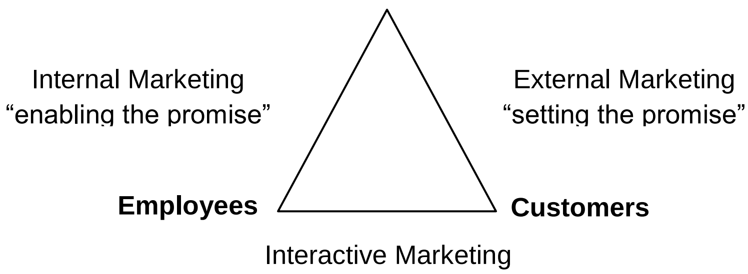
- *Technical quality* – the overall efficiency with which a bank handles its customer accounts in terms of prompt statements, rates of interest offered and so on.

- *Functional quality* – the way the service is actually delivered; this includes personal courtesy, the service environment in terms of comfort and décor, the customer's own role.

The importance which is attached to functional and technical quality depends on the type of service, and the benefit sought by the consumer.

Service Marketing Triangle

A useful way to conceptualize the questions the decisions that need to the made is presented in the services marketing triangle shown in Figure 1. The trainable suggests that there are three types of marketing that must be successfully carried out for a service organization to succeed, and that all of them revolve around making and keeping promises to customers.



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 that communicates to the customer before service delivery can be viewed as part of this external marketing function. In service firms there are many factors that communicate toe customers beyond traditional elements of advertising, special promotions, sales, and public relations, for example, the firm's personnel and the physical facilities themselves.

On the bottom of the triangle is what has been termed interactive marketing, or what some refer to as real-time marketing. Here the actual service delivery takes place-the firm's employees interact directly with customers. It is at this point that the promise is delivered (or nor delivered). Having a positive link between what is promised through the external marketing in the world is useless if promise cannot be kept.

The left side of the triangle suggests the critical role played by internal marketing, which enables employees to keep the promises that have been made to customers. Internal marketing refers to the activities the firm must carry out to train, motivate, and reward its employees. unless service employees are able and willing to deliver on the promises made, the firm will not be successful in keeping its promises and the services marketing triangle will collapse. Internal marketing hinges on the assumption that employee satisfaction and customer satisfaction are inextricably linked.

What the triangle implies is that all three sides are critical to successful services marketing and management, that without one of the sides in place the triangle, or the total marketing effort, cannot be supported. Each side represents significant challenges for most service business, and as we proceed through the text we will find approaches and strategies for dealing with all three.

Classification of Services

The underlying objective in any service classification scheme is to get a deeper understanding of the service product. Despite the diversity in the range of service products it is possible to classify and explore them on the basis of certain factors.

There have been more than sixteen studies regarding the classification schemes. Naturally, some are worthwhile in developing marketing strategies, while others suffer shortcomings. Christopher Lovelock identifies certain issues as important in the classification of services. He points out that –

- Service industries continue to be dominated by operations orientation, with the service managers insisting that their tasks and challenges in their industry is unique and have nothing in common with those from other service industries;
- A managerial mind set evident in many service sectors argues that the marketing of a service industry has nothing in common with the marketing of another service industry. For example, the marketing of an airlines service has nothing in common with marketing of a banking service or a financial service;
- Classification schemes should offer strategic marketing insights so as to have managerial value. Any other simple classification would be insufficient.

Payne identifies a wide range of factors which are used in various classification schemes. They are –

- Type of service,
- Type of seller,
- Type of purchaser,
- Demand characteristics,
- Rented versus owned services,
- Degree of intangibility,
- Buying motives,
- Equipment based versus people based,
- Amount of customer contact,
- Service delivery requirements,
- Degree of customization and
- Degree of labour intensity

A simple form of classification is to list out the service industries, like transportation, banking, health care, education etc. obviously, such listing are not helpful to identify the features relevant to the marketing of services. Recent researchers have sought to classify the services in a more meaningful manner that give insight into the strategic dimensions of services marketing.

Various classification schemes, clubbing various groups of services that share marketing commonalities, are relied upon by good marketers to gain strategic marketing insights. The underlying aim for such classification scheme is to gain a deeper understanding of the service product. Service products are also very diverse. They include services like entertainment, health services, education, legal services, management consultancy, accounting, travel etc. inspite of such diversities, the services can be classified and on the basis of some criteria they can be explored to provide a deeper insight into the nature of service.

Kotler and Station

According to Kotler, service may be equipment based. The service may meet a personal need or a business need, according to the difference in their objectives and the ownership. The objectives may either be for profit on nonprofit and the ownership may be private or public.

Stanton also lists a classification of services as follows:

1. Housing,
2. Household operations like utilities, house repairs, repairs or equipments in the house etc.,
3. Recreation,
4. Personal care like laundry, beauty care etc.,
5. Medical and other health care,
6. Private education,
7. Business and other professional services,
8. Insurance and financial,
9. Transportation and
10. Communication

Lovelock's Classification Schemes

Obviously the classification schemes proposed by Kotler and Stanton appear to be simple. To understand the nature of service businesses and the extent of common characteristics shared by different services businesses, Lovelock's classification systems provides a helpful framework. The marketing insights obtainable from Lovelock's classification schemes, mentioned below, are worth discussing.

Nature of the service act

In this scheme, the nature of the service act, i.e. intangibility etc. and the recipients of the services are considered. It has wide dimensions and considers how the customer presence, physically or mentally, is required during the services delivery and the benefits gained by the customer. It also considers how the customers changes on receipt of the service. It leads to the consideration of location and scheduling convenience for the presence of the customer to utilize the service. It also provides marketing insights as to the restructuring of the service activity to standardize it in a way providing convenience to the customer in terms of service delivery and to the service provider.

Relationship with customer

This classification matrix contrasts the nature of service delivery and ascertains whether there is a formal relationship between the customer and service marketer. As knowledge of customers identities and addresses is grained to meet out specific offers to specific customers by targeted direct marketing, market segmentation seems to become easier and the customer's loyalty is expected to be stronger. Further, this scheme provides insights into trade off between pricing and usage rates. In the absence of personal relationship, services may be provided by continuous delivery or by discrete transactions. In discrete transaction where the customer pays for each specific service being provided, the customers are often anonymous and there will be a lack of information about them and so the market opportunity is restricted. Where no formal relationship exists the important issues for marketers would be established some form of more enduring relationship.

Customization and judgement in service delivery

In this classification, the degree of customization of service characteristics is contrasted with the degree of judgement required by customer contact staff. A decision regarding the extent to which the service offer should be customized is very important to the service marketers. They have to balance the cost of custom made service with a standard service and so the service marketers often seek to limit the number of options while deciding the extent of customization. In professional service firms, customer contact staff may exercise a high degree of judgement or may exercise-relatively little judgement establishing a series of routines and procedures.

Nature of demand and supply for services

This classification contrasts the nature of demand fluctuation over time and the extent to which the supply is constrained. Since services cannot be product for strong, the business may be lost to another service provider if the demand exceeds the supply of any particular service. This classification is useful to contrast different supply demand situations which affects all service marketers. It emphasizes in establishing demand patterns overtime, and to understand their existence. Then development of strategies are considered to help change patterns of demand so as to make them more favourable to the service provider.

Method of service delivery

The fifth classification focuses attention on examination of the availability of service outlets, ranging from single to multiple site, and the nature of the interaction between the customer and the service provider. Distribution issues realtiong to the method of delivery are focused upon. Customer convenience is the important consideration deliver yare focused upon. Customer convenience is the import consideration here.

These classification systems of Lovelock provide frame work for service marketers to consider both the nature of their business and to what extent they share common characteristics with other seemingly unrelated service business.

Other classifications

Equipment based and labour based: Classification of services, according to Thomas, can be on the type of equipment or people rendering the service. In equipment based services, the equipments or the machines being utilized for service position are important while people play a secondary role. Some of the examples are automatic vending machines, automatic car washes and movies. In such services, the equipments may be operated automatically or by unskilled or skilled labour. In labour based services, the human element is primary in the production and delivery of services. The equipments or machines, if any, are secondary. This type of services include counselling, legal advisory service, catering and hair dressing service. There are services in which both he equipments and labour have equal importance as in the case of hospital.

Convenience Shopping Specialty Services According to Nickles services can also be classified as being convenience shopping and specialty services. Evidently, the buyer behaviour will be different requiring special marketing strategies. Convenience services are those which the customer usually purchases frequently, immediately and with the minimum of efforts. Dry cleaning services, and shoe repairing services are examples of convenience services. Convenience of availability with minimum efforts determines the buying decisions. The user is not prepared to go to any efforts to secure a supply and will accept a substitute often compromising on price and quality. So the marketer must secure a widest possible availability if he is to maximize sales.

In contrast to the convenience services, shopping services are purchased after comparing quality and price. As information regarding the service product is important for customer comparisons, a marketing strategy has to be evolved providing enough information to the customer. Word of month is also an important factor in the selection of shopping services. Shopping service include banks, insurance companies, physicians and beauticians.

In the case of specialty service the customer puts in special purchasing efforts. The customers will be ready to travel distances and pay a premium for the services. Specialty services include medical specialists and legal advisors. As the customer is willing to take special purchasing efforts the marketing strategy will be focused on service product and building customer satisfaction. According to Hill the services may be classified as follows:

- Affecting person (eg. Health) or affecting goods (eg. Cargo maintenance),
- According to the permanent or temporary efforts,
- According to the reversibility or irreversibility of those effects,
- Physical effects or mental effects and
- Individual or collective services.

Relationship Marketing

The term ‘relationship marketing’ was introduced during the 1980’s and is a relatively new and evolving concept. Relationship marketing (or relationship management) is a philosophy of doing business, a strategic orientation, that focuses ***on keeping and improving current customers,*** rather than on acquiring new customers. This philosophy assumes that consumers prefer to have an ongoing relationship with one organization that to switch continually among providers in their search for value. building on this assumption and the fact that it is usually much cheaper to keep a current customer than to attract a new one, successful marketers are working on effective strategies for retaining customers.

According to Leonard Berry: “Relationship marketing is the attraction, maintaining and …. in multi service organisatoin …… enhancing customer relationships. The marketing mindset is that the attraction of new customer is merely *the first step* in marketing process”. This view has three complementary perspectives:

- The nature of the way the companies views their relationships with customers is changing. emphasis is moving from a transaction focus to a relationship focus with the aim of long-term customer retention.
- A broader view is emerging of the markets with which the company interacts. In addition to customer markets the organization also becomes concerned with the development and enhancement of more enduring relationships with other external markets including suppliers, recruitment, referral and influence, as well as internal markets.

- A recognition that quality, customer service and marketing activities need to be brought together. A relationship marketing orientation focuses on bringing the three elements into closer alignment and ensuring their combined synergistic potential is released.

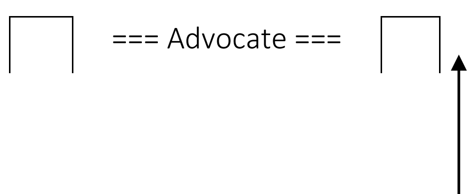
Customer Markets

Customers must, of course, remain the prime focus area for marketing activity. But the focus need to be less on ‘transactional marketing’ and more on the building of long-term client relationship. These two approaches can be contrasted as follows:

Whilst a relationship focus has been fully adopted by some service businesses, it is noticeably absent in others. Unfortunately, many companies take the transactional route. The investment made in winning a new customer, once successful, is immediately transferred to the next prospect. Little effort goes into keeping that customer.

Transaction Marketing	Relationship Marketing
1. Focus on the single sale	1. Focus on customer retention
2. Orientation on product features	2. Orientation on product benefits
3. Short timescale	3. Long timescale
4. Little emphasis on customer service	4. High customer service emphasis
5. Limited customer commitment	5. High customer commitment
6. Moderate customer contact	6. High customer contact
7. Quality is primarily a concern of production	7. Quality is the concern of all

Firms are now starting to recognize that existing customers are easier to sell to and are frequently more profitable. However, whilst manages intellectually concur with this view, much greater emphasis and resources are often devoted to attracting new customers, and existing customers are taken for granted. It is only when some breakdown in service quality occurs, and the customer levels or is on the point of defection, that the existing customer becomes important.



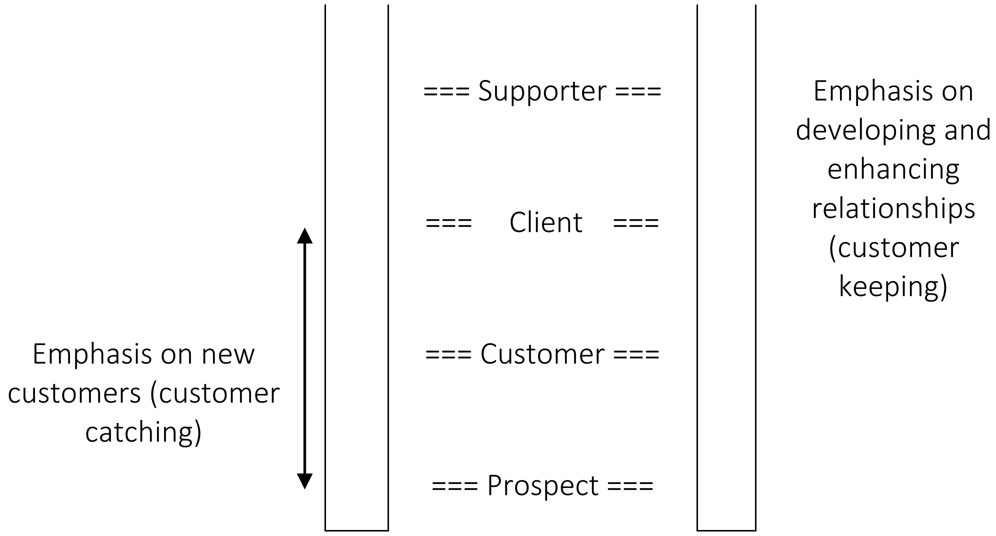


Fig. 3.1 The relationship marketing ladder of customer loyalty

This is not to say that new customers or clients are not important – indeed they are vital to the future most services businesses. Rather, a balance is needed between the effort directed toward existing and new customers. The following figure shows the relationship marketing ladder of customer loyalty which emphasizes this point. It is apparent that may organizations put their main emphasis on the lower rungs of identifying prospects and attempting to turn them into customers rather than on the higher 'relationship- and ultimately more rewarding – rungs of turning customers into regular clients and subsequently into strong supporters and eventually active advocates for the company and its products. But moving customers up the loyalty ladder is not simple. Organizations need to know explicitly and in depth exactly what each customer is buying – and every customer is different – and how it can continue to offer additional satisfactions that will differentiate its offering. Essentially, the only way to change someone from customer to advocate is to replace customer satisfaction with customer delight – by offering service quality that exceeds expectations.

Goals of relationship marketing

The goal of customer enhancement suggests that loyal customers can be even better customers if they buy more products and services form the company over time. Loyal customers non only provide a solid base for the organization, they may represent growth potential.

Benefits of customer retention

Both parties in the customer/ firm relationship can benefit form customers retention. That is, it is only in the best interest of the *organisation* to build and maintain a loyal customer base, but *customers* themselves also benefit form long-term associations.

Benefits for customers

Assuming they have a choice, customers will remain loyal to a firm when they receive greater *value* relative to what they expect from competing firms. Remember that perceived value is the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Value represents a trade-off for the consumer between the "give" and the "get" components. Consumers are more likely to stay in a relationship when the gets (quality, satisfaction, specific benefits) exceed the gives (monetary and non-monetary costs). When firms can consistently deliver value from the customer's point of view, clearly the customer benefits and has an incentive to stay in the relationship.

In addition to the specific inherent benefits of receiving service value, customers also benefit from long-term relationships because such association contribute to a sense of well-being and quality of life.

Building a long-term relationship with a service provider can reduce consumer stress as initial problems, if any, are solved; special needs are accommodated' and the consumer learns what to expect. This is particularly true for complex services (e.g. legal, medical, education), for services where there is high ego involvement (e.g. hair styling, health club, weight-loss program), and for services that require large investments (e.g. banking, insurance). After a time the consumer begins to trust the provider and to count on a consistent level of quality service.

Human nature is such that most of the people would prefer not to change service providers, particularly when they have a considerable investment in the relationship. If the service provider knows he consumers, knows their preferences, and has tailored services to suit their needs over time, then changing providers would mean educating a new provider on all of these factors.

Most consumers (whether individuals or business) have may competing demands for their time and money and are continually searching for ways to balance and simplify decision-making to improve the quality of their lives. When they can maintain a relationship with a service provider, they free up time for other concerns and priorities.

In some long-term customer/ firm relationships a service provider may actually become part of the consumer's social support system. For example, hairdressers often serve as personal confidents. Less common examples include proprietors of local retail stores who become central figures in neighborhood networks; the restaurant manager who knows his customers personally; the private school principal who knows an entire family and its special needs. These types of personal relationships can develop for business-to-business customers as well as for end-consumers of services. The social support benefits resulting from these relationships are important to the consumer's quality of life (personal and/ or work life) above and beyond the technical benefits of the service provided.

Benefits of the organizations

Increasing purchases: As consumers get to know a firm and are satisfied with the quality of its services relative to that of its competitors, they will tend to give more of their business to the firm. And as customers mature (in terms of age, life cycle, growth of business), they frequently require more of a particular service.

Lower costs: There are many start-up costs associated with attracting new customers. They include advertising and other promotion costs, operating costs of setting up accounts and systems, and the time costs of getting to know the customer. Sometimes these initial costs and outweigh the revenue expected from the new customer in the short term. A prime example occurs in the insurance industry.

Free advertising through word of mouth: When a product is complex and difficult to evaluate, and there is risk involved in the decision to buy it – as is the case with many services – consumers most often look to others for advice on which providers to consider. Satisfied, loyal customers are likely to provide a firm with strong word-of-mouth endorsements. This form of advertising can be more effective than any paid advertising the firm might use, and has the added benefit of reducing the costs of attracting new customers.

Employee retention: an indirect benefit of customer retention is employee retention. It is easier for a firm to retain employees when it has a stable base of satisfied customers. People like to work for companies whose customers are happy and loyal. Their jobs are more satisfying and they are able to spend more of their time fostering relationships than scrambling for new customers. In turn, customers are more satisfied and become even better customer. Because employees say with a firm longer, service quality improves and costs of turnover are reduced, adding further to profit.

Lifetime value of a customer: "If companies knew how much it really costs to lose a customer, they would be able toe make accurate evaluations of investments designed to retain customers. One way of documenting the monetary value of loyal customers is to estimate the increased value of profits that accrue for each additional customer who remain loyal to the company rather than defecting to the competition.

A somewhat less complex approach to understanding the life-time value of a customer is simply to multiply out the customer's average money value purchases over the average lifetime of the customer in a particular industry. The numbers can soon become very large. These relatively simply calculations can be used to assess at least preliminarily the lifetime value of customers in a variety of industries.

A more complex calculation would attempt to estimate the money value of all the benefits associated with a loyal customer, not just the long-term revenue stream. The value of word-of-mouth advertising, employee retention, and declining account maintenance costs would also enter into the calculation.

Given the many benefits of ling-term customer relationships, it would seem that a company would not want to refuse or terminate a relationship with any customer. But all relationships may not be beneficial, and that every customer is not right all of the time.

A company cannot target its services to all customers, some segments will be more appropriate than others. It would not be beneficial to either the company or the customer for a company to establish a relationship with a customer whose needs the company cannot meet.

Similarly, it would not be wise to forge relationships simultaneously with incompatible market segments. In many service business (e.g. hotels, tour package operators, entertainment, education), customers experience the service together and can influence each other's perceptions about value received. Thus, to maximize service to core segments an organization may choose to turn away marginally profitable segments that would be incompatible.

In the absence of ethical or legal mandates, organizations will prefer not to have long-term relationships with unprofitable customers. Some segments will not be profitable for the company even if their needs can be met by services offered. This may be the case when there are not enough customers in the segment to make it profitable to develop a marketing approach, when the segment cannot afford to pay the cost of the service, or when the projected revenue flows form the segment that would not cover the costs incurred to originate and maintain the business.

At the individual customer level, it may not profitable for a firm to engage in a relationship with a particular customer who has ban credit or who is a poor risk for some other reason. Retailers, banks, mortgage companies, and credit-card companies routinely refuse to do business with individuals whose credit histories are unreliable. While the short-term sale may beneficial, the long-term risk of nonpayment makes the relationship unwise from the company's point of view.

Customers behaviour such as verbal / physical abuse of employees, refusal to follow policies or laws were found to result in dissatisfaction for the customer.

Although often these difficult customers will be accommodated and employees can be trained to recognize and deal with them appropriately, at time the best choice may be not to maintain the relationship at all – especially at the business-to-business level where long-term costs to the firm can be substantial.

It should be noted that the best customers are not just the ones that generate the most profit. Especially in business-to-business settings, those customers that inspire the best ideas and innovations are also good relationship customers even if they do not necessarily generate the highest profits.

Thus, while in general firms will seek to maintain strong relationships with customers because of the benefits discussed, all customer segments and all individual customers are not necessarily good long-term relationship customers.

Service Mission

Meaning

“A mission is an enduring statement of purpose that provides a clear vision of the organization’s current and future business activities, in product, service and market terms, its values and beliefs, and its points of differentiation from competitors. A mission helps determine the relationships in each of the key markets with which the organisation interacts, and provides a sense of direction and purpose which leads to better independent decision-making at all levels of he organisation”.

Such a mission statement should explicitly reflect the underlying beliefs, values and aspirations, and strategies of the organisation.

During the last decade many services organisatoins have started to develop mission statements. Over this period there has been increasing recognition of the potential value of mission statements and some companies have spent enormous amounts of time and effort in developing them.

The development of an effective mission statement is especially important in services because of the need for focus and differentiation in service sector businesses. Given the intangibility of services and the significance of people in service operations, organizations need to develop a clear statement of purpose or ‘mission’ to ensure that the appropriate attention is directed at the key elements of their strategy.

Issues to be considered while developing a good mission statement for a services business:

- This mission statement should be defined clearly.
- The audience for a mission should be carefully considered.
- It is necessary to understand in what business we are in.
- A mission statement should be unique.
- A mission statement should be market oriented.

Organization’s mission statement should be defined clearly

In developing a mission statement the key is to achieve a balance between not being so narrow as to restrict growth opportunities and not being so broad as to lose focus. For example, some banks which diversified away from their core business into stock broking and investment banking, with disastrous results, are not reconsidering their strategy. Similarly, a number of retailers that have diversified away from their core businesses, have been unprofitable in these new areas, and are now leaving them and consolidating back into their core retailing business. Hence the organisation must be cautious while defining mission statement.

The audience for a mission should be carefully considered

Before formulating a mission statement the target audiences for the mission and thrie relative importance should becomes dared. The sophistication of the mission needs to be reviewed taking into account the audience to whom it is addressed. The following figure outlines some of he key potential audience for admission and some of their expectations, based on a consideration of stakeholders. A mission statements aims to capture the values and beliefs of the organization and provide guidelines for the way it should interact with its identified markets – customers, internal employees, influence markets (including shareholders), suppliers, referral markets, as well as the recruitment markets for employees.

It should be clear that a mission which attempts to address every one of these groups equally could become extremely long a and consist of general ‘motherhood’ statements. In considering the various markets outlines above the company needs to consider how the company intends to serve each of them and to extent it wants to incorporate recognition of them within the mission.

The decision on target audiences for the mission should be based on the context of the particular service firm and its current position within the industry sector. Most senior managers in service firms consider that the key messages in the mission statement should be concerned primarily with providing a strategic direction for the organisatoin and motivating and focusing its internal staff.

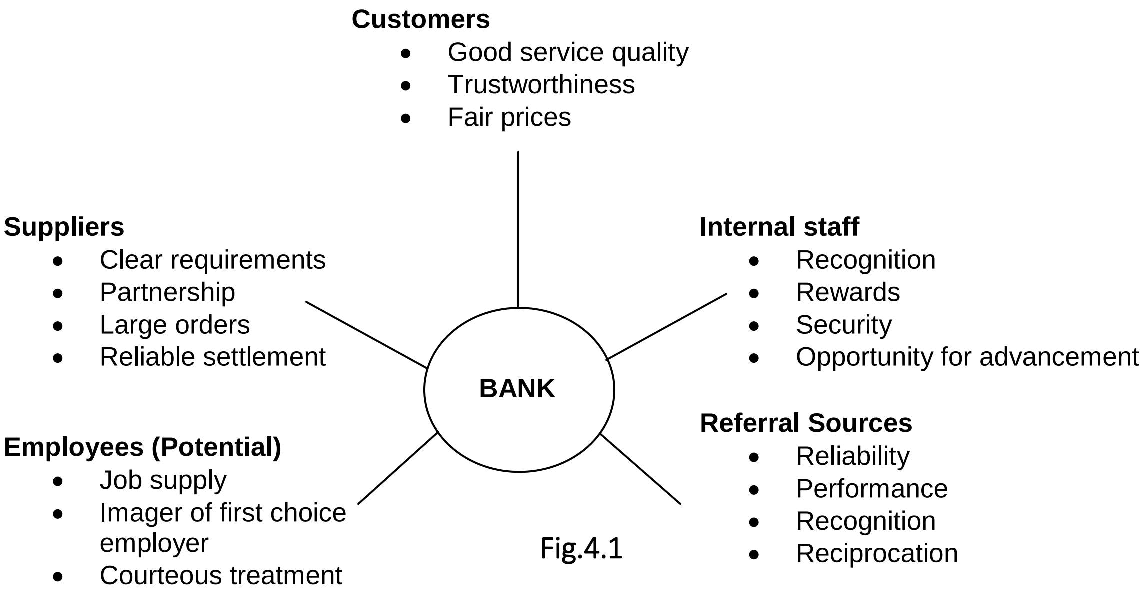


Fig.4.1

Influencers

1. Shareholders	2. Government and regulators
• Returns • Growth • Compliance • Good corporate • Good corporate citizen	• Credit rating • Compliance • Reliability • No surprises

It is necessary to understand in what business we are in

Consideration of the mission for a service organisation involves asking two interrelated questions: What business are we in and what business should we be in? The mission should provide the target audience determined above, including employees and other relevant stakeholders, with a understanding of the strategic direction and scope of the organization.The mission is a key vehicle for developing and reviewing the strategic market and service options. In considering the basic purpose of the business it is essential that these strategic growth options are considered, otherwise the mission may simply be a series of elegant words used to reinforce the existing status quo. To do this what should be done is to consider the service and market areas in which the organisatoin may wish to develop. The following figure outlines the product/ market options which the organisatoin needs to consider. These include the following.

- Market penetration
- Market development
- Product or service development
- Diversification

Product / Services

Market New Present	Present	New
	Market Penetration	Product or Service Development
	Market Development	Diversification

Each section of the matrix in the above figure represents a core marketing strategy based on combinations of focus on existing markets, new markets, existing services and products or new services and products.

For the services firm four possible growth options are available. A first option involves expanding its markets position (market penetration) it can attempt to penetrate the existing market for its services by attracting customers away from competitors, by increasing usage rates amongst existing competitors or by improving customer retention. A second option (service development) involves introducing new services to the existing market place. Many of the banks are following this strategy by introducing a continuous array of new products including investment and insurance services. A third option (market development) is to develop new markets for the existing services. This could involve identification and attack of new market segments or may involve regional or global geographic expansion. The fourth option (diversification) involves offering new services or products to new markets.

Developing a mission involves consideration of what services and markets the company wants to be in, not just those in which it is involved at present. A mission can help identify a policy defining future business growth and probability, based on these four growth options.

A mission statement should be unique

A mission statement needs to be unique to the organisatoin under consideration: a key method of obtaining competitive advantage is to be different in a preferred way to a selected customer base. The mission statement should articulate the point of differentiation and at the same time act as a framework for helping evaluate current and future activities. A mission statement should differentiate the company from other companies operating in the same sector and help to establish an organization’s individuality and uniqueness.

It is essential to have a mission statement which is market oriented

It is particularly important to avoid mission statements that are product oriented, i.e. the mission should be defined in a way that reflects customers needs rather than product features and attributes. Organizations such as airlines, hotels and banks need to consider customer needs carefully and use this knowledge to make an input into the design of the services that are offered.

A mission statement should articulate the right balance in terms of the desired long-term direction of the organisatoin, determine to whom the mission is addressed, indicate the services to be offered and markets to be served, be unique and focus more or customers' needs rather than on the characteristics of the products and services offered.

Service Mission Statements

David ahs identified nine components of mission statements. These include the following:

1. Customers—who are they?
2. Products or services – what are the firm's major products or services?
3. Location – where does the firm compete?
4. Technology – what is the firm's basic technology?
5. Concern for survival – what are the firm's economic objectives?
6. Philosophy – what are the basic beliefs, values, aspirations and philosophical priorities of the firm?
7. Self concept – what are the firm's major strengths and competitive advantages?
8. Concern for public image – what are the firm's public responsibilities and what image in desired?
9. Concern for employees – what is the firm's attitude towards its employees?

Example of service organization's mission statements

DHL

WORLDWIDE EXPRESS*

WORLDWIDE MISSION STATEMENT

DHL WILL BECOME THE ACKNOWLEDGED GLOBAL LEADER IN THE EXPRESS DELIVERY OF DOCUMENTS AND PACKAGES. LEADERSHIP WILL BE ACHIEVED BY ESTABLISHING THE INDUSTRY STANDARDS OF EXCELLENCE FOR QUALITY OF SERVICE AND BY MAINTAINING THE LOWEST COST POSITION RELATIVE TO OUR SERVICE COMMITMENT IN ALL MARKETS OF THE WORLD.

THE EVOLUTION OF OUR BUSINESS INTO NEW SERVICES, MARKETS, OR PRODUCTS WILL BE COMPLETELY DRIVEN BY OUR SINGLE-MINED COMMITMENT TO ANTICIPATING AND MEETING THE CHANGING NEEDS OF OUR CUSTOMERS.

A good mission should to the following:

- Define the purpose of the organisation.
- Identify relevant services and markets
- Assist in reviewing current and future strategic options.
- Create a balance between narrowness and breadth
- Differentiate the organisation from others in its sector
- Be specific enough to have an impact on the behaviour of the organisation.
- Be realistic, attainable and flexible.
- Focus more on customer needs and their satisfaction than on the characteristics of the service themselves.
- Reflect the core competencies of the organisation.
- Permit close integration with corporate objectives, so that success in achieving the mission can be measured.
- Be clearly understood and widely communicated through the organisation.

The nine components of the mission outlined earlier together with the list above, can act as a check-list when developing a mission.

Once a satisfactory mission has been developed, it should be communicated within and where appropriate outside the organisation.

Andrew Campbell and his colleagues have identified the following four elements as important in a mission:

- Purpose – why the company exists
- Strategy – the competitive position and distinctive competence.
- Values – what the company believes in.
- Standards and behaviour – the policies and behaviour patterns that underpin the distinctive competence and the value system.

Degree of Sophistication

It is important that the degree of sophistication in the working used in a mission is appropriate to the organisation concerned. The use of technical academic terms appropriate for a strategy consulting firm's mission would be totally inappropriate to a small company operating in road transportation.

Levels of Mission Statement

Just as companies have different levels of objectives, ranging from strategic objectives to tactical objectives and action plans, a service organisation should consider to what extent it should develop mission or purpose statements at lower levels. For example, a bank with diverse financial services operations could have a mission statement for the bank as a whole as well as individual mission for each business unit. Thus it might develop missions for retain banking, international banking, investment banking and its insurance and stock broking activities. Many multi-business services organizations are in a similar position of needing to develop missions for their constituent parts. It may also be appropriate to have missions at individual functional levels.

Developing a Service Mission

The first point in developing a mission statement is to consider if the organisatoin is ready to proceed with the task. A number of different approaches can be used for the development of a mission.

A workshop approach

This typically takes place in the context of a strategy or marketing planning workshop with senior executives from the organisation. A period is spent explaining the purpose and role of a mission statement and the different types of mission that can exist at different levels. This is followed by syndicate exercises, where groups of about five people spend a sufficiently long period to produce a first draft mission. The missions fro a number of different syndicates are then presented and the strengths and weaknesses of each are discussed in detail, leading to the eventual development of a mission statement.

T top team approach

Another approach is one which consists of boards of directors, with a group of upto eight people. The session starts with the senior management, or board, being asked the purpose of their business. Each member is asked to write his or her view of he mission on a card. Significant variations are often found. After an appropriate period the missions on the cards are collected and shuffled, and during a coffee break they are written up on large sheets of paper and pinned to the walls. The mission statements do not identify their authors. The terms is then invited to write a second version of the mission on a card and again these are collected and written on large sheets of paper which replace the ones on the wall. At this point a more detailed discussion follows. After two or three attempts a good draft mission may start to evolve, although in some cases more fundamental analysis may be needed.

This time devoted to the development of a satisfactory mission can be considerable. The development of a mission statement can be assisted by an external consultant.

Once completed, mission statements change only less frequently. The emergence of a new opportunity, a decline in the company’s existing markets or a new technology offering a breakthrough in service delivery can create the need for change. A mission should be sufficiently robust to last for some time but should be reviewed on an annual external environment.