

SERVICES MARKETING
(MBA IV SEMESTER-ELECTIVE IV)

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(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:

- ❖ Services Marketing People, Technology, Strategy, Christopher Lovelock, Wirtz, Chatterjee, Pearson.
- ❖ Services Marketing—Integrating Customer Focus Across the Firm, Valarie A. Zeithaml & Mary Jo Bitner: TMH.
- ❖ Services Marketing – Concepts planning and implementation, Bhattacharjee, excel, 2009
- ❖ Services Marketing, Srinivasan, PHI.
- ❖ Services – Marketing, Operations and Management, Jauhari, Dutta, Oxford.
Services Marketing – Text and Cases, Rajendra Nargundkar, TMH.
- ❖ Marketing of Services, Hoffman, Bateson, Cengage.
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UNIT III

Pricing & Promotion strategies for services

Pricing strategies

Until recently, two broad strategic approaches to prices were in vogue. They are (i) Skimming and (ii) Penetration. Skimming strategy is based on the perceived need of the users which tend to affect their sensitivity to the prices. When they are insensitive to the prices it could be exploited by setting a very high price to skim the cream off the market. Whereas, a penetration strategy assumes that by producing a product similar to that of a competitor and then under pricing it and thereby some or all of its market share can be taken away. The recent trend is an alternative value-based strategy based on the belief that the appropriate concept is the perceived value held by the customer.

Pricing Objectives

The pricing methods being adopted should consider the pricing objective of the service forms. The most typical pricing objectives that a company could have are:

- Pricing to achieve a desired return on investment;
- Stabilization of pricing margin to ensure maximum profit;
- Pricing to realize the target market share; and
- Pricing to meet and prevent competition for survival.

These represent some of the more common, pricing objectives.

The decision on pricing will be dependent on a range of factors including:

- Corporate objectives
- Positioning of the service
- The nature of competition
- Lifecycle of the service(s)
- Elasticity of demand
- Cost structures
- Share resources
- Prevailing economic conditions
- Service capacity

Pricing Methods

After considering the demand, cost, competitors and all the other relevant factors in the light of the pricing objectives, the service marketer should consider the method by which the prices are fixed. There are different methods and some of them are:

1. *Cost-plus pricing*: It includes all methods of setting prices with exclusive reference to cost. By adding an amount of money to an estimated product cost a selling price is arrived at. This money which is added is considered as the profit expectation if the sale is made on the basis of adding this anticipated profit to total or full costs.
2. *Competition pricing*: Pricing based on market conditions where firms compete with one another by undercutting others prices, rather than other forms of competition such as product quality, product differentiation and advertising.
3. *Competitive parity pricing*: Pricing is done on the basis of those that are followed by the competitor or market leader.
4. *Loss leading pricing*: the price of a product or service is deliberately cut to a point below its cost aiming to attract additional customers willing to buy profitable items. It is usually applied on a short-term basis to establish position in the market.
5. *Rate of return pricing*: it is also referred to as target return pricing. The prices are set to achieve a given rate of return on investments and assets.
6. *Value based pricing*: It is market driven and reinforces the positioning of the service and the benefits the customer receives from the service. In value based pricing, prices are based on the services perceived value to a given consumer segment.
7. *Relationship pricing*: The future potential profit streams over the lifetime of customers, forms the basis for relationship pricing. It is considered that the relationship pricing is the appropriate form of pricing where there is an ongoing contact between the customer and the service provider. It is said that the relationship pricing follows closely the market oriented approach of value base pricing but takes the lifetime value of the customer into account.
8. *Prestige pricing*: The pricing at above the going market price on the basis that many buyers regard price as an indicator of quality and so will perceive enhanced quality to products with higher than usual prices. In such cases sellers will be able to ask prestige prices for products which have distinctive brand names and reputation.

To gain competitive advantage, service firms have to use pricing more strategically. But it is also a fact that pricing has received less attention in service firms. Pricing decisions are not approached in a sophisticated manner in service marketing. Only a few marketers utilize pricing as a purposive marketing tool.

Place: Service Location and Channels

The location and channels used to supply services to target customers are two key decision areas. Location and channel decisions are essential to consider how and at which place the services can be delivered to the customer. They become more relevant to services as they cannot be stored and mostly are produced and consumed at the same point. The environment in which the delivery of service takes place and the manner of its delivery is important attributes of the service when its value is perceived.

Service marketers are expected to seek and develop appropriate delivery approaches. Location and channels are considered to be two important issues in developing such delivery approaches.

Location

Service location is an important consideration in place strategy. A service firm should decide where its operations and staff are situated because if they are not conveniently located the customers may turn to rival service provider who, in their perception, are conveniently placed. The type and degree of interaction is an important factor involved in the location of services. Depending upon the nature of the service,

- The customer may go to the service firm, or
- The service form may go to the customer or
- The service provider and the customer may transact business at arm's length.

In the first type of interaction mentioned above, where a customer goes to the service provider, location selection becomes very important. For a service business such as a restaurant, location may be one of the main reasons for patronage. In this type of interaction, service providers seeking growth can consider offering their services at more than one location.

The optimum location of services for a multi-site operator becomes a critical decision in businesses such as car rental, restaurants, motels, banks and retailers. Such organisations take great care in selecting appropriate sites on the basis of potential customers in the catchment area and location of competitor's sites. A number of sophisticated computer models have been developed which can be used to assess the desirability of various site alternatives.

In the second type of interaction, where the service provider can go to the customers, site location becomes much less important provided it is sufficiently close to the customer for good quality service to be received. In some circumstances the service provider has no discretion in going to the customer as certain services must be provided at the customers' premises. This is the case with a wide range of maintenance services such as life repair, pest control and cleaning services. In other cases services providers have discretion in whether they decide to offer their services at the customer's or their own premises. Some garages not offer car tune up and servicing at the customer's home or office, as do hairdressers and TV repair firms. Some dry cleaning and laundry firms have built up highly profitable businesses by

dispensing with the need for expensive multiple high street locations and locating their operations in a low-cost area and providing a pick-up and delivery service.

However, when the customer and service organisation transact at arm's length, location may be largely irrelevant. The customers are not concerned with the physical locations of suppliers of services such as electricity, telephone or insurance, provided efficient mail or electronic communications are in place.

Some of the important considerations faced by a service marketer in location are regarding the requirement by the market, the trends relating to the competition within the sector of service activity being operated and the flexibility of the service. Complimentary services, innovations and the obligations faced by the service provider are also important. In location selection, the choice of appropriate country, regions within it and the community within the region, state or city are important considerations. Likewise, in site selection the specific property on which the service is proposed to be established has to be considered.

Some of the critical factors affecting the location decision are:

- Convenience perceived by the customers,
- Operating cost,
- Comparative proximity with that of the competitors,
- Complementary and supporting systems,
- Geographic and environmental factors,
- Business climate in the particular location,
- Availability of communication networks, and
- Transport facilities.

Channels

A channel, according to the American Marketing Association, is the structure of intra company organization units and extra company agents and dealers wholesale and retail, through which a commodity, product or service is marketed. It includes all the stages and organizations through which a product passes between its points of production and consumption. In the process, three participants, viz., the service provider, intermediaries and customers are involved. The principal function of a distribution channel is to provide a link between the production and consumption by filling away the gaps / discontinuities existing between them.

The discontinuities mentioned above may arise from a number of causes. Some of them are:

- Geographical separation,

- Time (in services fluctuations in supply and demand are generally unlikely and so this factor may not have much relevance),
- Information,
- Ownership (this also has little importance in services as transfer of legal title to ownership rarely occurs),
- Sorting.

A channel may be simple when there is a single, direct transaction between producers and consumers. This form of distribution is common in some service sectors (e.g. professional services).

When there is a concentrated production and the consumers are widely diffused, different channels develop and coexist with a variety of intermediaries such as advertising agencies which act as brokers for a number of related services including media buying, print and production. Travel agents act as middlemen for airlines, hotels and leisure services. A recruitment agency provides a service as intermediary between employer and employee.

The broad channel options for services are outlined in the following figure and include:

- Direct sales, e.g. accounting and management consulting services.
- Agent or broker, i.e. insurance broker, estate agent and travel agent.
- Seller's and buyers' agents or brokers, e.g. stockbrokers and affinity groups,
- Franchises and contracted service deliverers, e.g. fast food, car services and dry cleaning.

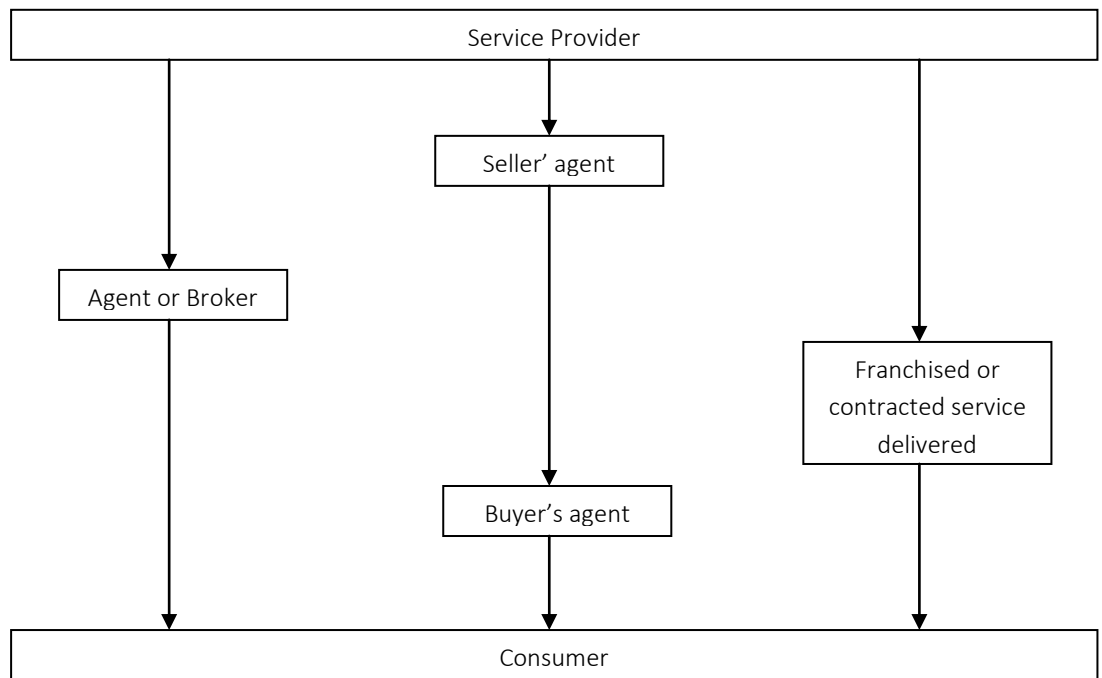


Fig. 7.1 Channel options for service companies

This illustrates that although many services are intangible and inseparable and direct sales may be the appropriate channel, services can be distributed by a considerable number of other channel options. In financial services sector a range of distribution options are being used. These include the following:

- Direct face-to-face sales
- Use of tied or untied sales representatives
- Direct mail
- Telemarketing
- Computer networked distribution
- Professional service firms, e.g. estate agents and consultants.
- Cable TV.

One approach to considered the channels is how they compare with those of the competitors is suggested by Light. His framework has these main sectors:

- The channel participants and their relationships.
- The various functions that participants perform using material and technological supports.
- The service they create.

Location and Channel Choice

The choice of both distribution and channels for services largely depends on the particular requirements of the market and the nature of the service itself. Technology has, in some instances, changed the advantage to be gained by proximity of a service to the customer market. For example, electronic banking has removed some of the need for banks to be located on high streets and also the requirements for long opening hours to deliver their services. Many banking transactions can now be performed easily without personal contact. Technology has allowed changes in the location decision in many service industries, but the decision on where and how to distribute service is often still dependent on the needs of the customer.

Service delivery channels are often the service providers. This highlights the importance of the selection of the appropriate delivery channel.

Promotion of Services

Promotion is a set of activities designed to increase purchases by consumers and is the means through which the service provider communicates with his target markets. The promotion of services cover a number of areas or promotional tools which form the communications mix or promotions mix. These include:

- Advertising
- Personal selling
- Sales promotion
- Public relations
- Word of mouth, and
- Direct mail.

The use of promotional tools in service sector is a comparatively recent aspect. Now, the fiercely competitive environment has made the service marketers use promotional tools activity. But promotional exercise as it is done in consumer goods companies will not be the same for services industry. A communication programme for a service organization may consist a wide variety of alternative communications and promotion tools. To communicate the target markets, the various elements of the communication mix must be integrated within the promotion and communication programme. This process involves many tasks among which the following are considered important.

- Identification of target audience,
- Determination of promotion objectives
- Selection of communication mix

The choice of the communications mix for services involves decisions on such issues as whether to advertise, use personal selling or generate publicity through greater

public awareness by such means as through editorials, publications and press activity. The choice of medium is determined by decisions on how to create the most favourable awareness amongst the target audience.

Advertising

Advertising is one of the main forms of impersonal communication used by service firms. The role of advertising in services marketing is to build awareness of the service, to add to the customer's knowledge of the service, to help persuade the customer to buy, and to differentiate the service from other service offerings. Relevant and consistent advertising is therefore of great importance to the success of the marketing of the service.

Advertising has a major role in helping deliver the desired positioning for the service. Because the core product is intangible it is difficult to promote, service marketers therefore frequently choose tangible elements within the product is intangible it is difficult to promote, service marketers therefore frequently choose tangible elements within the product surround for promotion. Thus airlines promote the quality of their cuisine, the width and pitch of their seats, and the quality of their in-flight service.

There are several important issues in advertising. The most important are selection of media, determination of advertising goals and methods of determining the advertising budget.

Media includes radio, television, cinema, newspapers and periodicals, direct mail and outdoor advertising. In selecting the media, the characteristics of the medium atmosphere of the medium, coverage of the medium and the comparative cost are important factors.

Selection of appropriate media and determining the balance between them is essential to obtain the most effective return on advertising expenditure. A consideration of the specific advertising goals to be accomplished will facilitate this process.

Advertising goals are important to all advertising campaigns. They should be sound and complete and a measurement of effectiveness of an advertisement or advertising campaign is impossible unless satisfactory objectives have first been specified. The advertising objectives as they are generally referred to, should be explicit, commonly agreed, unequivocal, true, calibrated and testable.

Advertising budget or the advertising appropriation, as it is sometimes referred to, has many approaches. These include the 'affordable' method (how much can the organization afford); the 'percentage of turnover' method (a given proportion of the overall budget is set aside for advertising); the 'competition parity' method (an amount designed to effectively compete in a given competitive area); and the 'objective and task' method.

The objective and task method suggests that advertisers should decide on their budget by firstly defining their advertising objectives and, secondly by determining the advertising task, and its cost, to achieve those objectives. It is suggested this is the

most appropriate method to use, and it is one which has strong appeal amongst more sophisticated advertisers. However, it is necessary to evaluate the trade off between the benefits in achieving the objectives and the cost of their achievement.

Advertising activities generally should be integrated with other elements of the communications mix. They should create a positive image to support the activities of the service company's sales personnel so as to increase their prospects for sales to the customers.

Personal Selling

Personal selling has a vital role in service, because of the large number of service businesses which involve, personal interaction between the service provider and the customer; the service being provided by a person not a machine and 'people' becoming part of the service product.

Many customers of service firms have a close and on-going relationship with the service providers. Under these circumstances selling has a pivotal role in the communications mix. In certain services selling is the preeminent element in the communication mix.

Selling of services include target prospect identification, sales call planning, preparation of presentations, handling objections and closing a sale.

George, Kelly and Marshall suggest seven guidelines for selling services. They are:

- Orchestration of the service purchase encounter.
- Facilitation of a quality assessment by the customer,
- Making the service tangible
- Emphasis on organisatoin's images,
- Use of references from external sources,
- Recognition of importance of customer contact personnel, and
- Recognition of customer involvement during the service design process.

Lack of training and resistance to selling are two commonly faced problems in many services business. A sales management structure supported by a programme of sales training, will help improve the capacity of the sales personnel. Market orientation development programmes are helpful to overcome to problem of resistance to selling.

Seles Promotion Sales promotion includes any marketing activity designed to sell a product or service. It involves many marketing tactics like price, bonus offers, additional services and gifts.

Traditionally, sales promotion was used mainly in consumers goods market. Now many service firms also adopt sales promotion programmes to a large extent.

Sales promotion tools can be aimed at three groups:

1. Customers – free offers, sample, demonstrations, coupons, cash refunds, prizes, contests and warranties.
2. Intermediaries-free goods, discounts, advertising allowances, cooperative advertising, distribution contests, awards.
3. Sales force – bonuses, awards, contests and prizes for best performer.

Sales promotions are not always well coordinated with marketing objectives and other components of the communications mix. To help develop, implement and test a promotions programme the following steps should be taken:

1. Decide the objectives of sales promotion and how they will support other communications and marketing mix elements.
2. Determine the balance of promotions activity between customer, intermediaries and sales force.
3. Decide the sales promotion tools to be used.
4. For each element of sales promotions programme:
 - a. Determine the amount of the incentive;
 - b. Establish conditions for involvements;
 - c. Decide on the length of the promotion;
 - d. Choose the distribution method for promotion; and
 - e. Schedule the promotion timetable
5. Agree the sales promotion budget
6. Pre-test the sales promotion budget.
7. Launch the sales promotion programme
8. Evaluate the sales promotion programme.

Public relations

The Institute of Public Relations of England defines public relations practice as “The planned and sustained effort to establish and maintain goodwill and mutual understanding between an organization and its publics”. Publics include all the groups of people and organizations which have an interest in the service company. So the employees also can be included. As publics are more diverse, public relations is essential to communicate with them.

Public relations is concerned with many marketing takes like-

- Building and maintaining image,

- Handling problems and issues smoothly,
- Reinforcing positioning,
- Influencing the public to a position favourable to the marketer and
- Preparing the public favourably while launching new services.

A service organization's 'image' is made up of the collective experiences, views, attitudes and beliefs held about it. Public relations can use a range of communications approaches to improve or maintain the image of a service organisation. Overall the objectives with image is to ensure that an organization is viewed more favourably, and is more familiar, than competitors in the market segments it serves.

A wide range of tools can be used in the design of a public relation programme. These include:

- Publications, including press releases, annual reports, brochures, posters, articles and employee reports.
- Events, including press conferences, seminars, speeches, conferences.
- Investor relations aimed at gaining support of investors and analysts.
- Stories which create media coverage
- Exhibitions including exhibits, displays.
- Sponsorship of charitable causes and community projects.

Word of mouth

One of the most distinctive features of promotion in service businesses is the greater importance of referral and word of mouth communications. It highlights the importance of the people factor in services promotion. Customers utilizing a service, talk to other potential customers about their experience. Such an endorsement has more reliability and impact than an advertisement or other mass or personal communications mix elements.

The multiplier effect from word of mouth is not uniform to all products. It varies from industry to industry and situation to situation. But a service marketer should be careful about negative referrals as they tend to have a greater impact than positive experiences. Dissatisfied customers are likely to talk about their experiences to more people and this can significantly reduce the effectiveness of advertising and other elements of the communications mix.

Direct marketing

Direct marketing is recognized as a low cost and effective method for communicating with corporate customers due to increasing cost in direct sales force. Developments in electronic media, telecommunications, internet etc. provide great opportunities for developing integrated programmes for direct marketing activities. Consequently,

many service firms have begun to take advantage of the benefits of a coordinated direct marketing programme.

People in Services

The success of marketing a service is tied closely to the selection, training, motivation and management of people. There are many examples of services failing or succeeding as a consequence of the ineffective or effective management of people.

All the people participating in the delivery of service provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance and their attitudes and behaviours all influence the customer's perceptions of the services.

Kotler says that, "if the service personnel are cold or rude, they can undermine all the marketing work done to attract customers. If they are friendly and warm, they increase customer satisfaction and loyalty". Hence, the importance of people within the marketing of services has gained much interest in internal marketing.

One of the best known and most dramatic examples is the turn-around of British Airways during the 1980's. Faced with declining profits, greater customer complaints, employee dissatisfaction and increased competition, British Airways launched a series of programmes to refocus on the people within the organisation. Employees were involved in the process of turning the company around through the development of increased awareness of the critical importance of the customer. Employees were trained to develop new attitudes towards customers by emphasizing that the airline was in business to satisfy their needs.

In turn, the company made employees feel wanted and cared for, building on the principle that those who are looked after will pass on this caring attitude. The success of this new direction for the airline brought increased profits matched by greater customer and employee satisfaction. The high level of profitability achieved by British Airways in 1992, in the midst of a major recession, highlights the effectiveness of their strategy. Thus by recognizing the contribution people make to acquiring and keeping customers, within the overall marketing mix, the service company's competitive performance will be substantially enhanced.

Process in Services

The process by which the services is created and delivered to the customer is critical to the service operations as customers often perceive the service delivery system as part of the service itself. Process means all work activities. Process involve the procedures, tasks schedules, mechanisms, activities and routines by which a product or service is delivered to the customer. It involves policy decision about customer involvement and employee discretion. Identification of process management as a separate activity is a must for service quality improvement. Its importance in service business is evident because of the inseparability of production and consumption. The customer's perception is evident because of the inseparability of production and consumption. The customer not only think about the service product alone, they attach importance to the manner in which it is delivered. Under these circumstances, a

poorly designed service process leads to poor service quality. Banks provide a good example of this. By reconfiguring the way they deliver service through the introduction of automatic teller machines (ATMs) banks have been able to free staff to handle more complex customer needs by diverting cash only customers to the ATMs.

Processes are seen as structural elements that can be engineered to help deliver a desired strategic positioning. They can be analyzed according to their complexity and divergence. Processes can be changed to reinforce the positioning or establish a new positioning. A clear understanding of the configuration processes in terms of this complexity and divergence, on a balance of marketing and operations activities are important factors for improving services systems. Processes are thus a marketing mix element which can have a substantial role in reinforcing positioning and in product development.

Physical Evidence in Service

The environment in which the service is delivered and where the firm and customer interact, any tangible components that facilitate performance or communication of the service is known as physical evidence in service. The physical evidence of service includes all of the tangible representations of the service such as brochures, letterhead, business cards, report formats, signage, and equipment. In some cases it includes the physical facility. Physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organization's purpose, the intended market segments, and the nature of the services.

Developing a marketing mix strategy

These seven elements of the services marketing mix interact with each other. They should be developed in a mutually supportive manner to obtain the best possible match between the internal and external environments of the organisation. In developing a marketing mix strategy service marketers need to consider the relationships between the elements of the mix.

It has been pointed out that there are three degree of interaction between the marketing mix elements:

- Consistency, where there is a logical and useful fit between two or more elements of the marketing mix.
- Integration, which involves an active harmonious interaction between the elements of the mix.
- Leverage, which involves a more sophisticated approach and is concerned with using each element to best advantage in support of the total marketing mix.

Thus effective relationship marketing is based on the choice and design of marketing mix elements that are mutually supportive and leveraged together so that synergy is

achieved. This implies that people, processes and customer service should be seen as crucial additional elements of services marketing mix.

At the same time each marketing mix elements has an impact on the market segments selected ensuring that there is a fit between the marketing mix and each target segment; a fit between the marketing mix and the company's strategic capabilities, emphasizing its strengths and minimizing the impact of its weaknesses; and a recognition of competitor's capabilities, which involves evading their strengths and capitalizing on their weaknesses. Hence an effective marketing plan outlining the marketing mix strategy has to be developed and implemented.

