SERVICES MARKETING

UNIT - 2 MATERIAL

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MM- 305: SERVICES MARKETING

Unit - II: Topics

Consumer Behaviour in Services; Market Segmentation and Services Positioning; Service Demand Management Designing and Managing Service Product.

CONSUMER BEHAVIOUR IN SERVICES

Introduction

All marketing activities are directed towards the consumers, as they initiate production of goods/services. The ultimate success of all economic activities depends on producing what the buyer considers suitable.

In the history, the buyers had some freedom of choice of accepting or rejecting the product or service of the seller. They purchase goods/services based on their ***"mental and economic forces"***

The ***mental force*** creates desires and wants to satisfy pride, fear, love, fashion etc; The economic force (i.e. purchasing power) which may decide the buying pattern to choose between those wants and select according to priority of consumption.

Thus the marketer's prime task is to fin – what, when, where, how and from whom the consumers decide to purchase goods and services. The purpose marketing research is to gain insight into the process and critical factors that influence the decision making of the consumer.

It is important for service organization to understand a number of aspects of the customers buying behavior.

- The analysis of market opportunities,
- The selection of target market, and
- The determination of the marketing mix elements all depend on the life style, attitude and economic conditions of the consumer.

Marketers find it useful to distinguish different consumer groups or segments and to develop products and services tailored to their needs. There are many factors that influence consumer behavior. The service firm must understand how the consumer would respond to different service feature, price, appeals etc; along with the major force in the marketing environment i.e. economic, social, politics, culture factors, Technological all these influence the buyer's decision making process and evoke positive negative response towards the product or service.

This model of consumer behavior is called as the stimulus response model; so, the human behavior has two components:

1. **Buyer's Characteristics and**
2. **Buyer's Decision-making Process**

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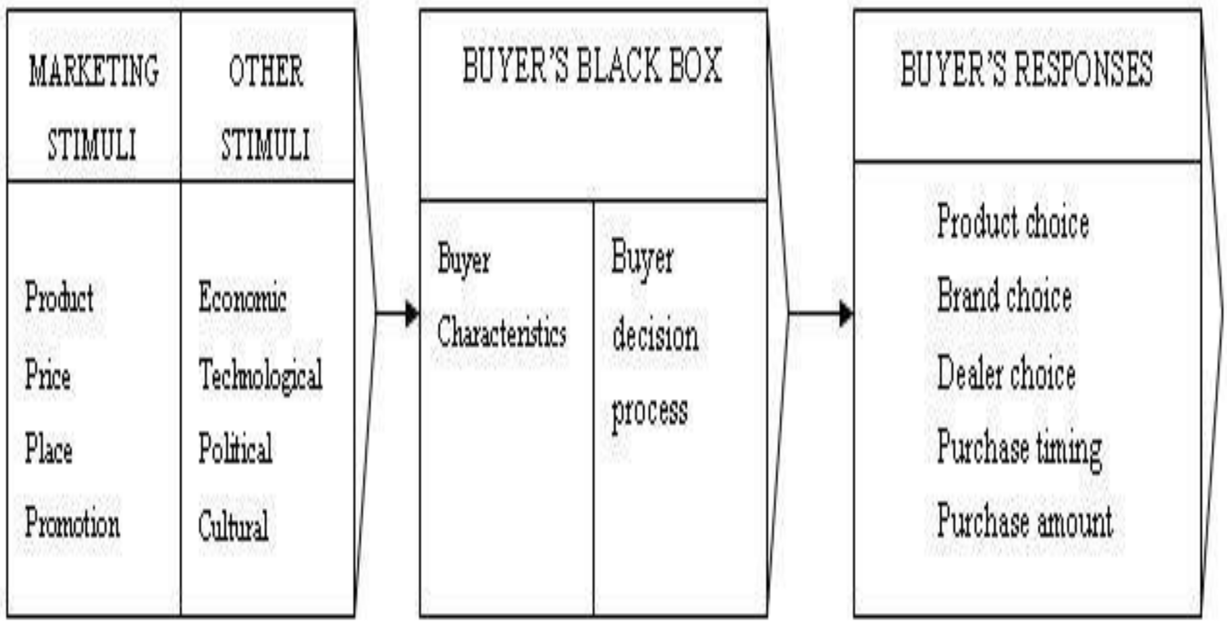
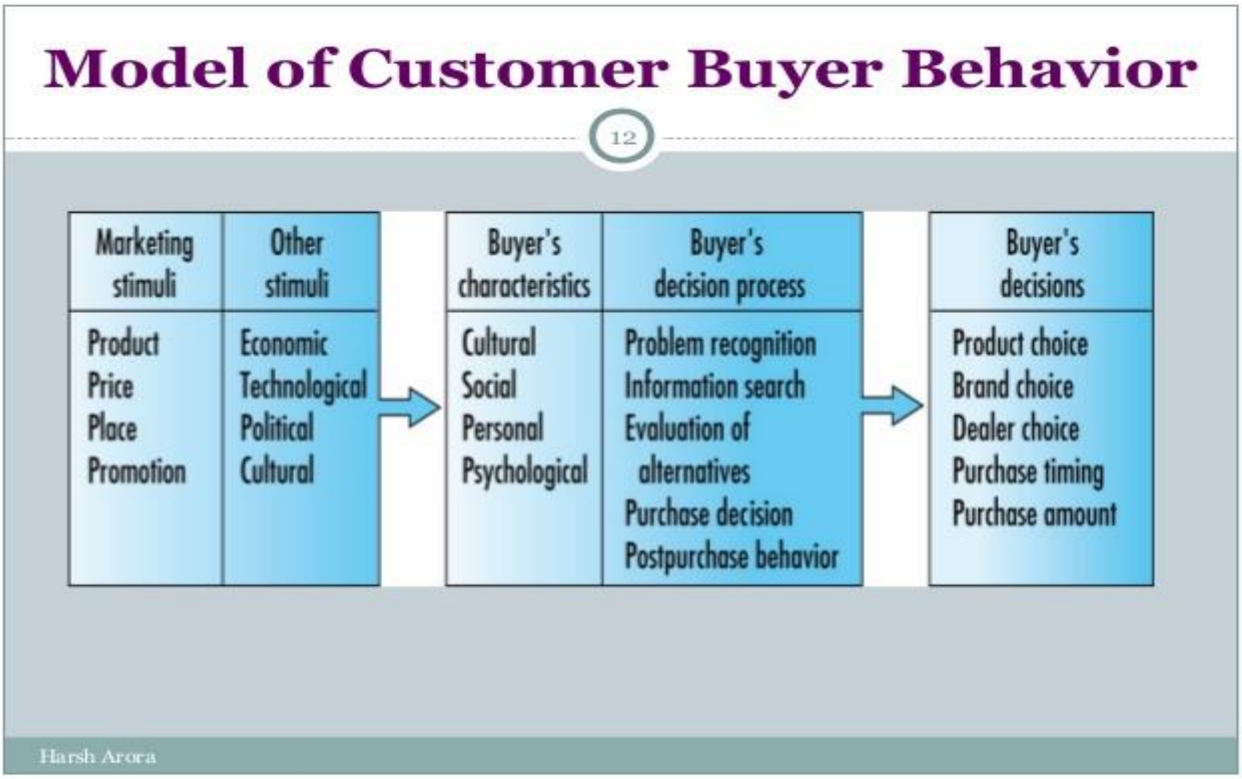
Fig: Model of Buyer Behavior





Buyer Characteristics

The consumer's purchase are strongly influenced by

- **Cultural factors**
- **Social Factors**
- **Personal Factors**
- **Psychological Determinants**

Marketers must understand the complex buyer behaviour.

Cultural Factors

This is including culture, sub-culture and social class. Culture refers to the value, practice or customs of the people in a society. It is the social heritage of the society and influences the life style of the people such as food habit, clothing and social interaction.

The values become enforced through legal system, or are faithfully followed with no legal force. There are a number of factors included in the cultural influences like:

- ❖ Religion
- ❖ Ethnic Group
- ❖ Fashions
- ❖ Leisure times etc.,

Another, the socio-cultural changes that have taken place are higher rate of literacy in women and more working women and the social class categorises people based an income, wealth, occupation, education etc; The social class reflects homogeneous values, interest and behaviour.

Social Factors

The consumer behaviour is also influenced by social factors, such as consumer reference groups, family etc; reference group can be primary in the form of friends and work colleagues or secondary in the form of remote personalities with whom there is no two-way interaction.

The primary reference group exerts a major influence on the purchase decisions this could indicate the need to take measure that will facilitate word of mouth communication. For eg. Giving customer rewards in return for the introduction of new customers.

An analysis of the secondary reference group used by consumers in the purchase decision process indicates the possible personalities to be approached who may endorse a product or service in the advertisement copy.

Family is yet another influencer in the decision making of the customer. Marketers are interested in the roles and influence of the husband, wife, children and parents on the purchase of goods and services.

It is the responsibility of the marketer to develop a marketing communication which may be directed differently, at the particular influencing personality at the different stages of the buying process.

Personal Factors

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Personal characteristics like buyer's age, life cycle stage, occupation, economic circumstances, life style etc; influence the buyer's decision. The consumer's choice of goods and services change over their lifetime, due their age and life cycle stage.

The food and choice of restaurant, the type of insurance required the banking facilities, leisure and recreational facilities all change with age and the stage of tier life cycle (bachelor, married or retired stage).

A person's occupation and their economic circumstances have an influence on the goods and services bought. Marketers must identify the occupational group that would be interested in the service and work out marketing strategies to communicate about their service to the relevant occupational group in order to induce positive buying motives. Life style refers to the persons pattern of living, expressed variables; activities, interest and opinions.

Psychological Factors

The Psychological determinants, motivation, perception, learning and beliefs and attitudes have significant influence in understanding consumers buying behaviours.

A motive or a drive is a need that is sufficiently pressing to direct the person to seek satisfaction of need. A person has a number of needs.

Perception is the process by which as individual selects, organises and interprets information to create a meaningful picture to what he has seen or heard. The same stimulus can act in different ways on two individual as they have different perception.

Learning theory suggest that a person's learning is produced through the interplay of drives, stimuli, cues, responses and reinforcement. Thus marketers try to build up the demand for their products by associating it with strong drives, using motivating cues and providing positive reinforcement. Thus buyer behaviour is a complex interplay of cultural, social personal and psychological factors.

Consumer Decision-making Process

The consumers' decision-making process basically involves the following steps. For both goods and services.

Consumer decision making process involves the consumers to identify their needs, gather information, evaluate alternatives and then make their buying decision. The consumer decision making behaviour is a complex procedure and involves everything starting from problem recognition to post-purchase activities.

There are 5 steps in a consumer decision making process a need or a want is recognized, search process, comparison, product or service selection, and evaluation of decision.

The consumer's decision making model deals with the process of consumer decision making. This model consists of three stages the Input stage; the Process stage

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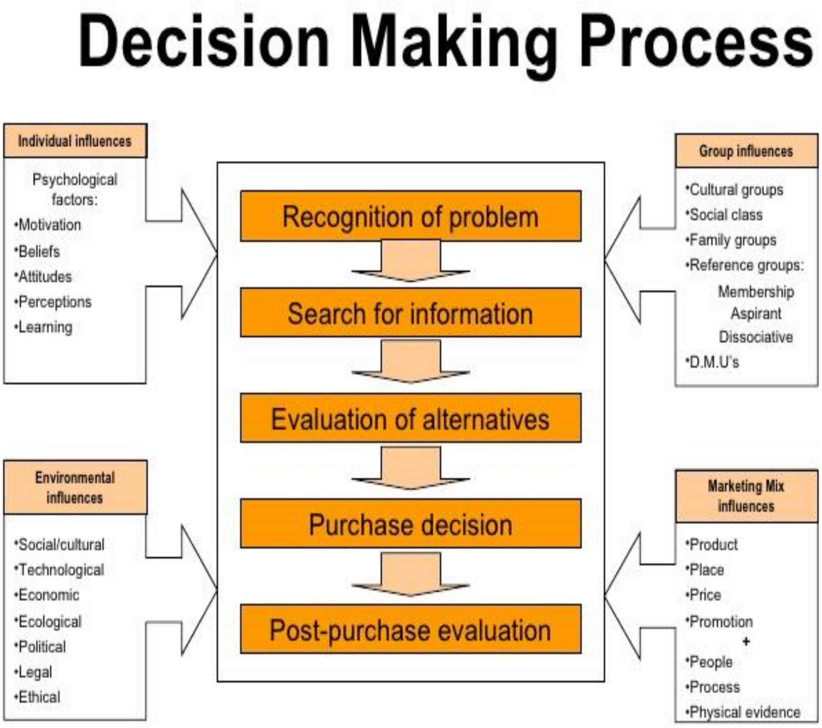
and the output stage. The input stage can be broadly categorized into Firms efforts and Socio-cultural Environment.

When it comes to the psychological factors there are 4 important things affecting the consumer buying behaviour, i.e. perception, motivation, learning, beliefs and attitudes. Social factors include reference groups, family, and social status. These factors too affect the buying behaviour of the consumer.

Fig: Consumer Decision Making Process



MARKET SEGMENTATION

Services Market Segmentation

Segmentation is an exercise. A Service segment is a second stage fragmentation of such a group, or 2nd basic foundation of relationship marketing. Goods market segments are based on the needs of customers.

The services market segment can have several expectations based sub-segments. Segmentation-by-expectation help in fine-tuning the strategies to suit the customer much better.

Segmentation also helps in matching supply and demand of service. Once the segments have been defined, a close study of the consumption pattern and expectation is easier.

Review of Basic Marketing Principles:

Market Segmentation

The bases for market segmentation such as:

1. **Demographic Segmentation**
2. **Geographic Segmentation**
3. **Psychographic Segmentation**
4. **Behavioural Segmentation**

Demographic Segmentation

Dividing the market to form groups based on variables such as age, sex, family income, occupation, or religion.

Geographic Segmentation

Dividing the market to form different geographic units such as nations, countries, state.

Psychographic Segmentation

Dividing buyers to form groups based on social class, lifestyle, or personality characteristics.

Behavioural Segmentation

Dividing buyers to form groups based on knowledge, attitude, uses, or responses to a service.

Important Requirements for effective Segmentation

Measurability: The degree to which the size and purchasing power of the segments can be measured.

Accessibility: The degree to which the segments can be reached and served.

Substantiality: The degree to which the segments are large or profitable enough.

Actionability: The degree to which effective programs can be designed for attracting and servicing of the segments.

Meaning of Market Segmentation

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The division of a market into homogeneous groups of consumers each of which can be expected to respond to a different Marketing Mix. There are numerous ways of segmenting markets. The more traditional being by age, sex, family size, income, occupation and social class.

Market segments can be identified by examining Demographic, Psychographic, and behavioural differences among buyers. The marketer than decides which segments present the greatest opportunity –which are its target markets.

There are two bases for segment consumer markets:

- ❖ Consumer Characteristics and
- ❖ Consumer Responses

The major segmentation variable for consumer markets is geographic, demographic, psychographic, and behavioural. These variables can be used singly or in combination. Business marketers use all these variables along with operating variables, Purchasing approaches, and situational factors.

Fig: Services Market Segmentation

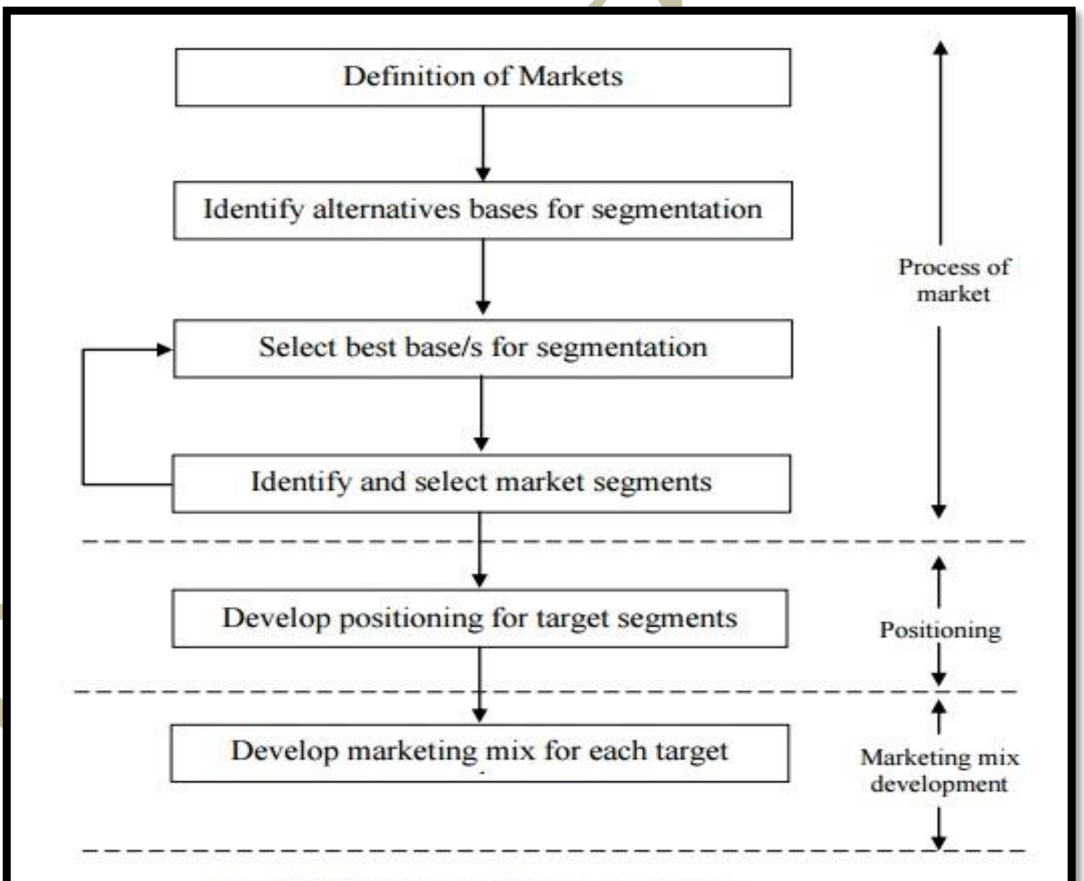

Fig. 5.1 Services market segmentation

The Segmentation process follows four broad steps:

1. The definition of the market to be addressed
2. The identification of alternative bases for segmentation

3. An examination of these bases and the choice of the best base or base(s) for segmentation.
4. The identification of individual market segments, an assessment of their attractiveness and the selection of specific target segments.

Once the market segment has been selected the process of target marketing involves developing a positioning for the target segments selected and then developing a marketing mix for each target market.

Definition of Marketing

According to the American Marketing Association (AMA)

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.

Marketing deals with identifying and meeting human and social needs. One of the shortest definitions of marketing is “Meeting needs profitably”.

Marketing is typically seen as the task of creating, promoting, and delivering goods and services to consumers and businesses.

Marketers are skilled in stimulating demand for a company’s products, but this is to limited view of the tasks marketers perform.

Marketing people are involved in marketing 10 types of entities: Goods, Services, Experiences, Events, Persons, Places, Properties, Organizations, Information’s and Ideas.

1. **Definition of Market**

The arena (Central Part) in which buyers and sellers meet to exchange items of value. The definition of the relevant market to be addressed involves specifying the customer group to which the company is seeking to the market its services.

In defining its market the firm needs to conduct an internal audit of its strengths and weaknesses and a review of the resources which are available to it. It also needs to consider carefully the overall strategic objectives of the firm.

The successful market segmentation means satisfying the needs of existing and potential customers in a clearly defined market. This involves understanding customer attitudes, and customer preferences, as well as the benefits, which are sought.

2. **Identifying alternative bases for segmentation**

Once the market to be addressed has been identified the next step is to consider alternative means of segmenting the market. Identifying alternative bases for

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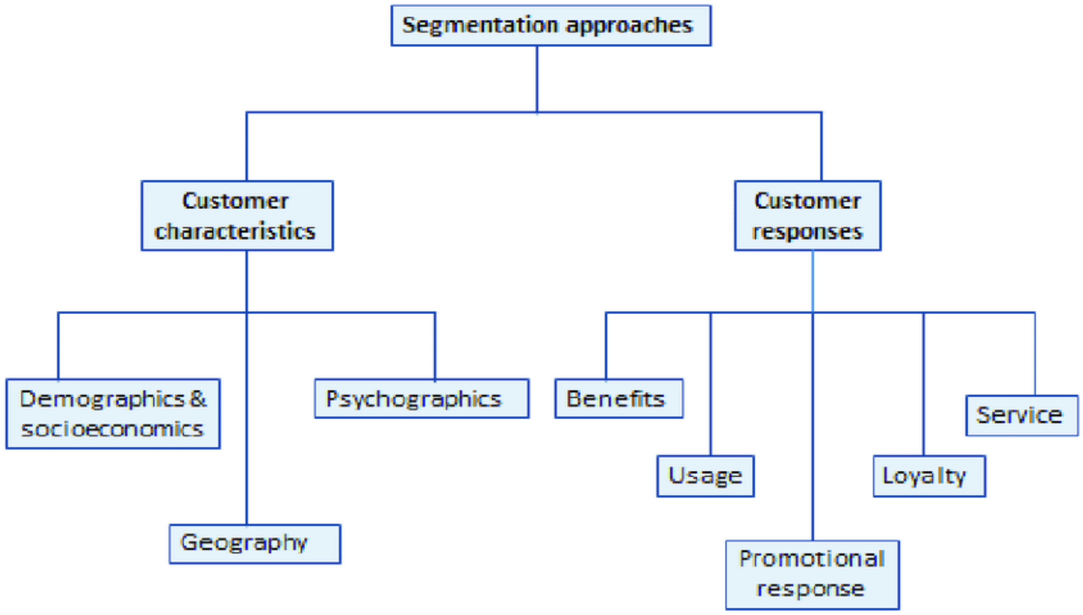
segmentation depends on the segmenting consumer markets or segmentation approaches.

Fig: Segmentation Approaches



Consumer Characteristics

(a) Demographic and Socio-Economics

It includes a number of factors such age; sex, family, size etc;

Socio-economic variables may also be considers here including income, education, social classes etc;

(b) Psychographic Segmentation

It is concerned with people's behaviour and ways of living. Psychographics can be especially helpful if other more traditional means of segmentation such as socio-economic or demographics do not produce clear or useful segments. Rather than being concerned directly with such factors as age, education, income, occupation and marital status.

Psychographic segmentation is concerned with analyzing lifestyle characteristics attitudes and personality.

(c) Geographic Segmentation

Geographic segmentation divides customers according to where they live or work and correlates this with other variables. This is appropriate where customer needs vary in different areas, or where local and regional trends favour particular types of service offerings.

As geographic analysis is a relatively simple means of segmenting a market, it is frequently one of the first segmentation variables to be considered by a service firm.

Geographic segmentation dimensions are typically grouped into (i). Market scope factors, (ii). Geographic market measures.

(i) Market Scope Factor

It includes a consideration of where the markets to be served are located; this may be local, national, regional, or global. To be a major player in some service businesses requires a regional or global presence.

(ii) Geographic market measures

It includes examination of population density, climate- related factors, and standardized market areas. Geographic measures are especially important in the selection of specialized mass communications media. Geographic market measures are used to determine relative sales potential in different geographic areas.

Consumer Responses

- **Benefit Segmentation**
- **Usage Segmentation**
- **Promotional Response Segmentation**
- **Loyalty Segmentation**
- **Service Segmentation**

Segmentation can also be carried out on the basis of the customer's response.

Benefit Segmentation

Benefit Segmentation assumes that the benefits that people are seeking from a given product or service is the basic reasons.

"Why the buy the Product"? This differs from psychographic segmentation which focuses on who will buy a product? Indentifying a segment seeking a common benefit permits the service provider to develop a relevant offering.

For example: Various benefits are sought with in the retail banking market. One segment seeks large, well known banks which offer a full range of service for varying needs. Another segment looks for advantageous loans with borrowing easily available at low interest.

A third segment may seek high savings interest with quick service and personal banking relationship. A fourth segment might seek a one-stop bank with a wide variety of services, convenient hours and quick service. A bank can direct its service to satisfying one or more of these segments and gain reputation for offering a distinct package.

Benefit segmentation is applicable to almost all services as it focuses on the underlying reasons for purchasing them.

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For Example: Within the education market consumers can be analyzed based on the primary benefits they seek from the education experience. An example of benefit segments used for categorizing prospective MBA's: MBA degree benefit segments:

Quality Seekers, Speciality Seekers, Career Changers, Knowledge Seekeers, Status Seekers, Degree Seekers, Professional advancers, Avoiders, Eonvenience Seekers, Non-matriculations.

Usage Segmentation

Usage segmentation focuses on the typically divided into heavy users, medium users, and occasional users or non-users of the service being considered. Many services marketers are concerned with focusing on the heavy user segment, who may consume many times more of the service than the occasional user.

This is the basis of many fast food restaurants that cater for high volume usage by providing speedy, low-cost food.

For Example: Banks and building societies are concerned with heavy, medium, light and non-users of their services. They wish to understand the nature, behaviour and identity of heavy users and attract them to their bank.

Promotional Response Segmentation

It considers how customers respond to a particular form of promotional activity. This may include response to advertising, sales promotions, in-store displays and exhibitions.

Loyalty Segmentation

Loyalty segmentation customers are categorized according to the extent of the loyalty they exhibit to the particular product or service being offered. Customers can be characterized according to their degree of loyalty in the channels of distribution or lot-lets. Customers are sometimes divided into four categories according to consumer loyalty patterns.

- ***Hard-core loyal***: Consumers who buy their brand all the time.
- ***Soft-core loyal:*** Who are loyal to two or three brands.
- ***Shifting-loyal:*** Who shift from favouring one brand to another?
- ***Switchers:*** Who show little sustainable loyalty to one brand?

Selection of Best Base(s) for Segmentation

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This stage of the segmentation process should result in the selection of the best base(s) for segmentation.

- ❖ Geographic Location
- ❖ Geographic Scale (Local / National)
- ❖ Stages in Business Cycle:
  - (i) Depression,
  - (ii) (ii) Recovery (Revival),
  - (iii) (iii) Prosperity or Full Employment,
  - (iv) (iv) Boom or Over Full Employment,
  - (v) (v) Recession
- ❖ Industry Type (Small, Medium, Large)
- ❖ Stage in Industry life Cycle
- ❖ Management Style / Age / Culture
- ❖ Buying History
- ❖ Profitability
- ❖ Degree of Risk
- ❖ Network
- ❖ Contract
- ❖ Advisers
- ❖ Aspiration
- ❖ Growth Rate
- ❖ Ownership
- ❖ Return on Capital

Identify and Select Target Market Segments

The identification and selection of a particular market segment for targeting with a distinctive service offering may depend on many factors, but the size of the segment, its special needs.

For Example: Difficult to use social class for segmentation purposes. The number and percentage of house hold heads in each lifestyle category.

Demographic Profile

Age of household head, occupation, education, home-ownership, number of full time wage earners in household, annual income and net worth and average balances.

Service Penetration

By transaction accounts, regular savings accounts and time deposits. Details of credit services, credit cards used trust-related services.

Average Dollar Balances

By transactions accounts savings accounts, time deposits, instalment credit and revolving lines of credit.

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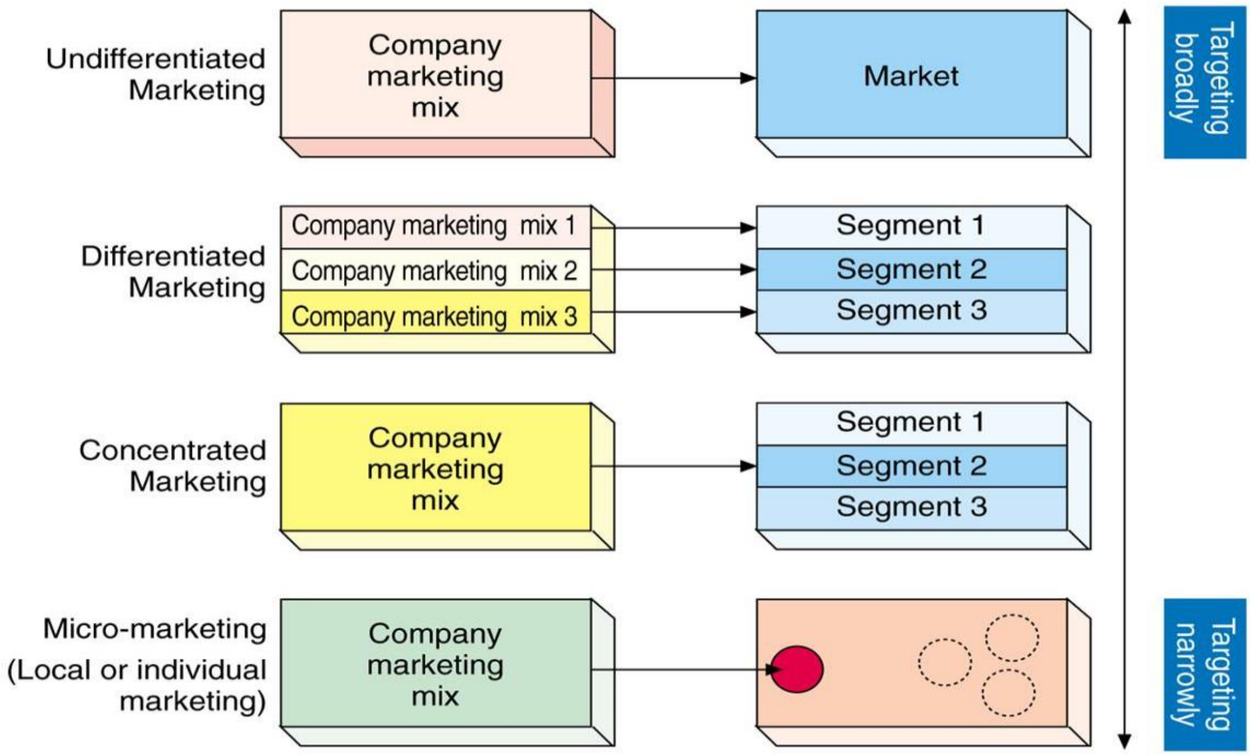
Fig: Alternative Approaches to Services Target Market Selection



`Target Marketing

The selection of one or more segments of a market at which companies direct their marketing since it has become almost impossible to market products that will satisfy every one, target marketing enables companies to aim the products at specific groups of consumers.

There are three alternatives to target market selection:

1. **An Undifferentiated Marketing Approach**
2. **A Differentiated Marketing Approach**
3. **A Concentrated Marketing Approach**

An Undifferentiated Marketing Approach

Where there is no recognition of not identical (distinct) segments in the market. This is sometimes termed market aggregation.

A Differentiated Marketing Approach

Where company identifies for example: Three Segments in the market, and develops separate marketing mix programmes aimed at each segment.

A Concentrated Marketing Approach

Where, although there is a recognition that there are a number of discreet segments, that the company focuses its marketing mix primarily at one specific segment.

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SERVICES POSITIONING

Positioning is heavily dependent on firm's capability to effectively differentiate itself from its competitors by providing superior delivered value to its customers.

Superior delivered value can be thought of in terms of the total value offered to a customer less the total cost to the customer.

Positioning it is critical for marketing managers to understand different customer attitude and perception towards price and quality.

Positioning offers the opportunity to differentiate any service. It is a benefit. Each service company and its goods and services has a position or image in the consumer mind and this influences purchase decisions. The purpose of planned position is to create a differentiation in the customer mind which distinguishes the company's service from other competitive services.

It is important to establish a position of value for the product or service in the minds of the target market. It must be distinguishable by an attribute, or attribute which are important to the customer. Buyers have different needs and are therefore attracted to different offers.

We define positioning is concerned with the identification, development and communication of a differentiated advantage which makes the organization's products and service perceived as superior and distinctive to those of its competitors in the mind of its target customers.

Meaning

Positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customer mind.

Characteristics of Positioning

Buyers have different needs and are therefore attracted to different offers. It is therefore important to select distinguishing characteristics.

- ***Importance***: The difference is highly valued to a sufficiently large market.
- ***Communicability***: It is possible to communicate the difference in a simple and strong way.
- ***Distinctiveness***: The difference is distinctly superior to other offerings which are available.
- ***Superiority***: The difference is not easily copied by competitors.
- ***Affordability***: The target customers will be able and willing to pay for the differences. Any additional cost of the distinguishing characteristics will be perceived as sufficiently valuable to compensate for any additional cost.
- ***Profitability***: The Company will achieve additional profits as a result of introducing the difference.

The Principles of Positioning

The most commonly promoted number – one positioning are:

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- ❖ Best Quality
- ❖ Best Service
- ❖ Lowest Price
- ❖ Best Value
- ❖ Safest
- ❖ Fastest
- ❖ Most Customized
- ❖ Most Convenient
- ❖ Most Advanced Technology

Errors of Positioning

A company must avoid four major positioning errors:

- ➢ Under Positioning
- ➢ Over Positioning
- ➢ Confused Positioning
- ➢ Doubtful Positioning these are related to Brand

The Levels of Positioning

The positioning of goods and services delivered by service organizations. We will use the term "Positioning" or Product Positioning" to reflect this emphasis. The Principles of positioning apply at other levels. We can consider positioning at service levels.

1. ***Industry Positioning***: The positioning of the service industry as a whole.
2. ***Organizational Positioning***: The positioning of the organization as a whole.
3. ***Product Sector Positioning***: The positioning of a range or family of related products and services being offered by the organization.
4. ***Individual Product or Service Positioning***: The positioning of specific products.

In addressing their company's position, service organizations may wish to consider where their industry is positioned. A frequent means of positioning used within public relations agencies is to identify the relative favourability and familiarity of different organizations. This can also be applied to industries.

The corporate level a credibility/visibility or favourability/familiarity framework this can also be used for a company and its competitors.

Regular monitoring can identify shifts in both the company and its competitor positions. For example: the three levels we can address in the positioning of a bank.

Fig: Level of Positioning for a Bank

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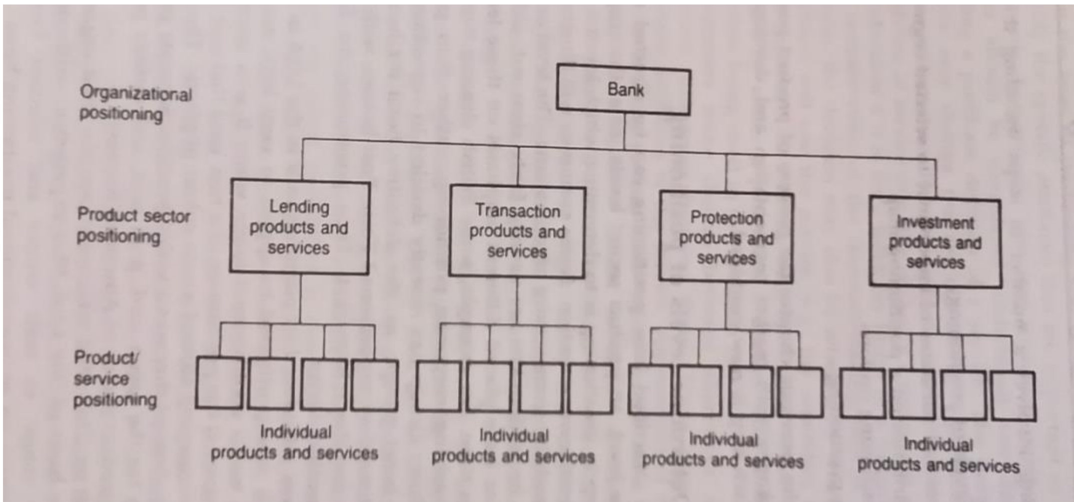


Figure 5.4 Levels of positioning for a bank

1. Positioning can be considered at the level of organizational positioning of the bank as a whole.
2. Product secretor positioning (for eg. the family of lending or investment product).
3. The positioning of individual products and services within that sector.

Two observations are worth making here.

- ***Firstly***: That decisions relating to Positioning of the organization and individual products should be clearly related and have some logic between them.
- ***Secondly***: That brand can be created at either the product sector level or at the individual product level.

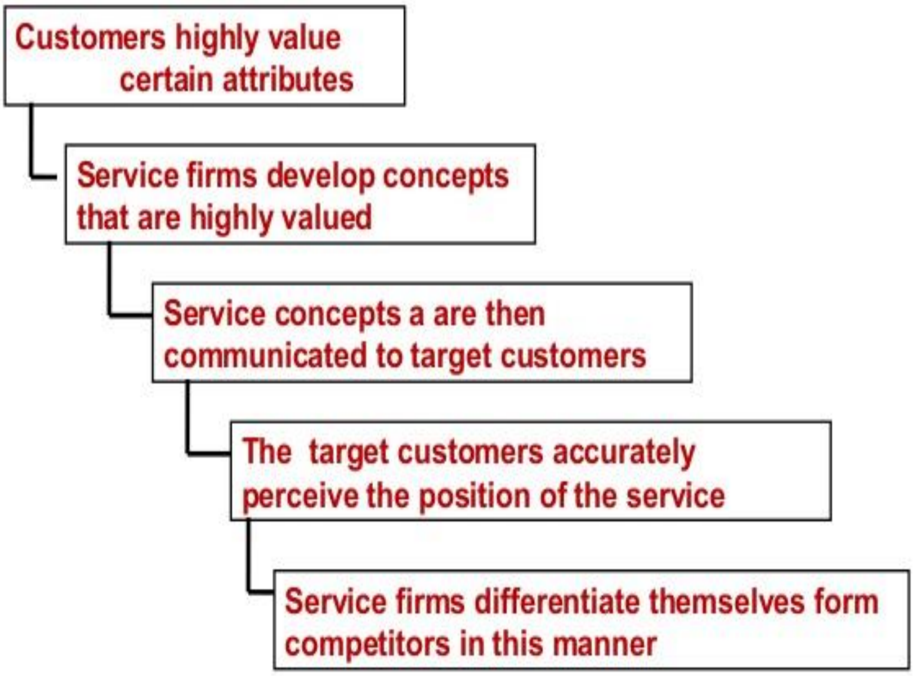
When we consider positioning of the product level we are usually concerned with the specific positioning for a target market segment.

When we are concerned with positioning at the corporate level this usually, but not always, involve a consideration of segmentation.

The Process of Positioning

DEFINITION

Positioning is the process of establishing and keeping a distinctive place in the market for a company and its products



The process of creating an image of a product in the minds of the consumers is called as positioning. Positioning helps to create first impression of brands in the minds of target audience. In simpler words positioning helps in creating a perception of a product or service amongst the consumers.

Service positioning is the unique identity of a service in a competitive market. A valuable position serves customer needs and stands out from the competition in a way that has meaning to customers

Steps to product Positioning

Marketers with the positioning process try to create a unique identity of a product amongst the customers.

1. **Know your target audience well**

It is essential for the marketers to first identify the target audience and then understand their needs and preferences. Every individual has varied interests, needs and preferences. No two individuals can think on the same lines.

Know what your customers expect out of you.

The products must fulfil the demands of the individuals.

2. **Identify the product features**

The marketers themselves must be well aware of the features and benefits of the products. It is rightly said you can't sell something unless and until you yourself are convinced of it.

A marketer selling Nokia phones should himself also use a Nokia handset for the customers to believe him.

3. **Unique selling Propositions**

Every product should have USPs; at least some features which are unique. The organizations must create USPs of their brands and effectively communicate the same to the target audience.

The marketers must themselves know what best their product can do.

Find out how the products can be useful to the end-users ?

Let individuals know what your brand offers for them to decide what is best for them.

4. **Know your competitors**

A marketer must be aware of the competitor's offerings. Let the individuals know how your product is better than the competitors?

Never underestimate your competitors.

Let the target audience know how your product is better than others.

The marketers must always strive hard to have an edge over their competitors.

5. **Ways to promote brands**

Choose the right theme for the advertisement.

Use catchy taglines.

The advertisement must not confuse people.

The marketer must highlight the benefits of the products.

6. **Maintain the position of the brand**

For an effective positioning it is essential for the marketers to continue to live up to the expectations of the end - users.

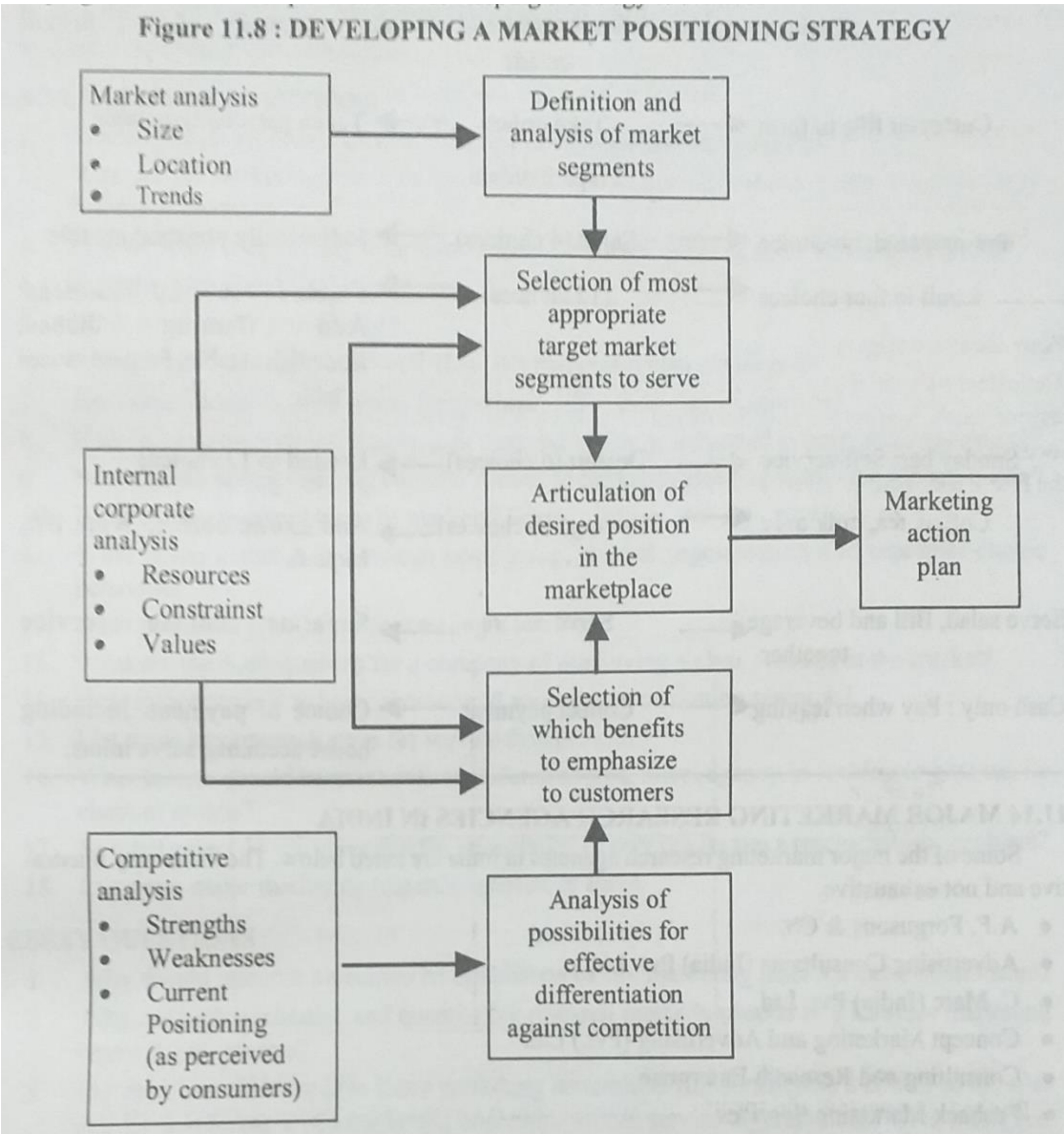
Never compromise on quality.

Don't drastically reduce the price of your products.

Steps in Developing a Positioning Strategy

It identifies the basic steps involved in identifying a suitable market position and developing a strategy to reach it.

Fig: Developing a Market Positioning Strategy



Competitive strategy is often narrowly focused at direct competitors – firms that market products that offer customers a similar way of achieving the same benefits (e.g., in the case of education, another college offering similar classes). However, there may also be a serious threat from generic competitors, which offer customers a different way of achieving similar benefits (for instance, distance learning via broadcast programmes or self-study through use of books, CDs and videotapes both offer generic competition to conventional university classes).

The research and analysis that underlie development of an effective positioning strategy are designed to highlight both opportunities and threats to the firm in the competitive marketplace, including the presence of generic competitors.

SERVICE DEMAND MANAGEMENT

The Management of Customer Demand

The task of managing markets and ensuring a good fit between supply and demand is usually very much more complex for services than for goods. Because goods manufacturers are able to separate production from consumption, they have the ability to hold stocks of goods that can be moved to even out regional imbalances in supply and demand.

"Stocks can also be built up to cater for any peaks in demand." Many of the strategies for managing supply and demand which are open to goods manufacturers are not available to services producers.

The perishability and inseparability of the service offer means that it is not sufficient to match supply and demand over the longer term within a broadly defined geographical market. Instead, supply and demand must be matched temporally and spatially.

An excess of production capacity in one time period cannot be transferred to another period when there is a shortage, nor can excess demand in one area normally be met by excess supply located in another.

The different demand situations

- Negative Demand
- No Demand
- Irregular Demand
- Full Demand

Negative Demand

All segments in a market possess negative feelings to towards a service, to the extent that they may even be prepared to pay to avoid receiving that service. Eg: Medical Service.

No Demand

Where a product is perceived by certain segments as being of no value. In the financial service sector. For Example. Young people often see savings and pensions policies as being of no value to themselves.

Irregular Demand

This is characterized by a very uneven distribution of demand through time. The inability to store services from one period of low demand to another of high demand means that this pattern of demand poses major problems for many service industries.

It can be overcome be a combination of demand management designed to reduce the irregularity of demand and supply management aimed at meeting demand as closely as practical.

Full Demand

Where demand is currently at a desirable level and one which allows the organization to meet its objectives. The management task moves away from increasing the volume of demand to improving its quality by concentrating on high-value activities aimed at high spending segments.

Service Demand Management

The challenge faced by managers of matching service supply with customer demand on a daily basis in a dynamic environment. Service capacity is a perishable commodity ***for example:*** a plane flying with empty seats has lost forever, the revenue opportunity of flying with one more passengers.

Products that are stored in warehouse for future consumption, a service is an intangible personal experience that cannot be transferred from one person to another. Instead, a service is produced and consumed simultaneously. Furthermore, the variability in service demand is quite pronounced. The natural variation in service demand creates periods of idle service at some times and periods of consumer waiting at other times.

The lack of inventory capability leads to four possible scenarios at any given time.

1. ***Excess Demand***
2. ***Demand Exceeds Optimum Capacity***
3. ***Demand and Supply are balanced at the Level of Optimum Capacity***
4. ***Excess Capacity***

Excess Demand

In this, the level of Demand exceeds maximum capacity. In this situation, some customers will be turned away, resulting in lost business opportunities.

Demand Exceeds Optimum Capacity

In this, No one is being turned away but the quality of service may still suffer due to overuse, crowding, or staff being pushed beyond their abilities to deliver consistent quality.

Demand and Supply are Balance at the Level of Optimum Capacity

In this, Staff and facilities are occupied at an ideal level. No one is overworked, facilities can be maintained, and customers are receiving quality service without undesirable delays.

Excess Capacity

In this, Demand is below optimum capacity. Productive resources in the form of labour, equipment and facilities are underutilized, resulting in lost productivity and lower profits.

Fig: Variations in Demand Relative to Capacity

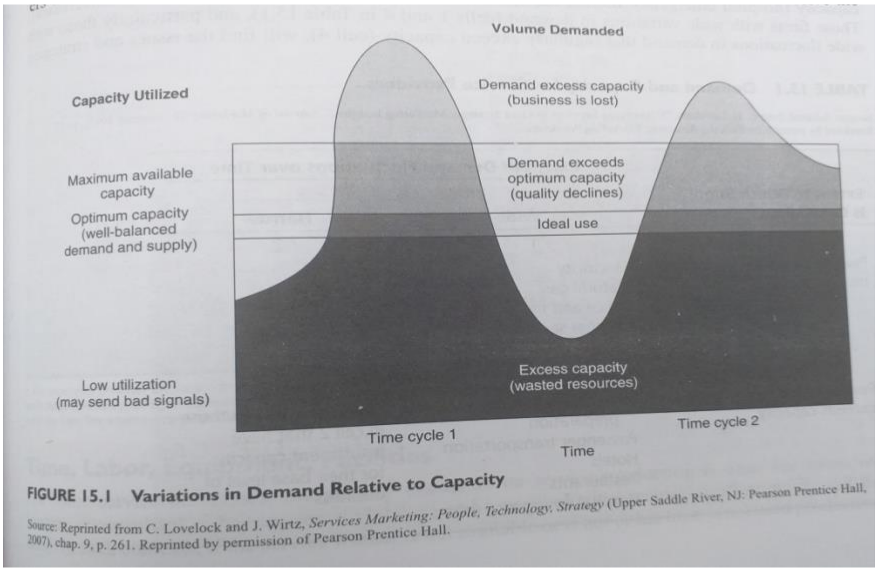


FIGURE 15.1 Variations in Demand Relative to Capacity

Source: Reprinted from C. Lovelock and J. Wirtz, *Services Marketing: People, Technology, Strategy* (Upper Saddle River, NJ: Pearson Prentice Hall, 2007), chap. 9, p. 261. Reprinted by permission of Pearson Prentice Hall.

Customers may receive excellent quality on an individual level because they have the full use of the facilities no waiting and complete attention from the staff. Not all firms will be challenged equally in terms of managing supply and Demand.

The seriousness of the problem will depend on the extent of demand fluctuations over time and the extent to which supply is constrained.

1. Some type of organisations will experience wide fluctuations in demand. For Example: Telecommunications, Hospitals, Transportations, Transportations, Restaurants etc;
2. Whereas others will have narrower fluctuations. For Example: Insurance, Laundry, Banking etc;
3. For some, Peak demand can usually be met even when demand fluctuates. For Example: Electricity, natural gas, Internet services etc;
4. But for others peak demand may frequently exceed capacity. For Example: Hospital emergency rooms, restaurants near football stadiums, Hotels next to universities etc;

Demand management is a planning methodology used to forecast, plan for and manage the demand for products and services. Demand management has a defined set of processes, capabilities and recommended behaviours for companies that produce goods and services.

Match Supply and Demand in Service Industries

What makes service industries so distinct from manufacturing ones is their immediacy: the hamburgers have to be hot, the motel rooms exactly where the sleepy travelers want them, and the airline seats empty when the customers want to fly. Balancing the supply and demand sides of a service industry is not easy, and whether a manager does it well or not will, this author writes, make all the difference. In this rundown of the juggling feat service managers perform, the author discusses the two basic strategies—"chase demand" and "level capacity"—available to most service companies. He goes on to discuss several ways service managers can alter demand and influence capacity.

- ***Services are direct; they cannot be inventoried***. The perishability of services leaves the manager without an important buffer that is available to manufacturing managers.
- ***There is a high degree of producer-consumer interaction in the production of service***, which is a mixed blessing; on the one hand, consumers are a source of productive capacity, but on the other, the consumer's role creates uncertainty for managers about the process's time, the product's quality, and the facility's accommodation of the consumer's needs.
- Because ***a service cannot be transported***, the consumer must be brought to the service delivery system or the system to the consumer.
- Because of the intangible nature of a service's output, establishing and measuring capacity levels for a ***service operation are often highly subjective and qualitative tasks***.

DESIGNING AND MANAGING SERVICE PRODUCT

Service Design

Customer's requirements for what is need from the service and the performance standards that the service needs to satisfy form the specifications for the design.

The design consists of four related components:

1. **Product Design**

2. **Facilities Design**
3. **Service Operations Process Design**
4. **Customer Service Process Design**

Product Design

Service Product Design refers to the design of the physical attributes of the service.

For Example: The meal served at a restaurant, subscription options for home cable television service, The banking transactions that are available through an automatic teller machine (ATM) are examples of such attributes.

Since providing these attributes may involve the assembly of raw materials or developing software, the design of these attributes is analogous to designing a physical product.

Service Facility Design

Service Facility Design refers to the design of the physical layout of the facilities where the service is delivered.

For Example: A restaurant interior or a car rental office. Customer's perceptions of the quality of the service are influenced by attributes such as the cleanliness, spaciousness, lighting and layout of the environment. Environment where the service takes place.

In addition to these "Front room (Visible to the customer) facilities, back-room facilities (Invisible to the customer) such as a restaurant kitchen or an airport baggage handling building also need to be designed.

The efficiency of service operations depends on the configuration of these facilities.

Service Operations Process Design

Service Operations Process Design refers to the activities that are needed to deliver or maintain a service.

For Example: are the steps needed to rent a car (Collect license, collect credit card, validate payment option, check car availability, print contract, obtain customer signature, deliver car keys and contract), or to deliver a meal to a customer.

The activities that make up the operation processes are those required for the service to delivery its output.

Customer Service Process Design

By Contrast, the activities comprising the customer service process design pertain to the interactions between the customer and the service provider.

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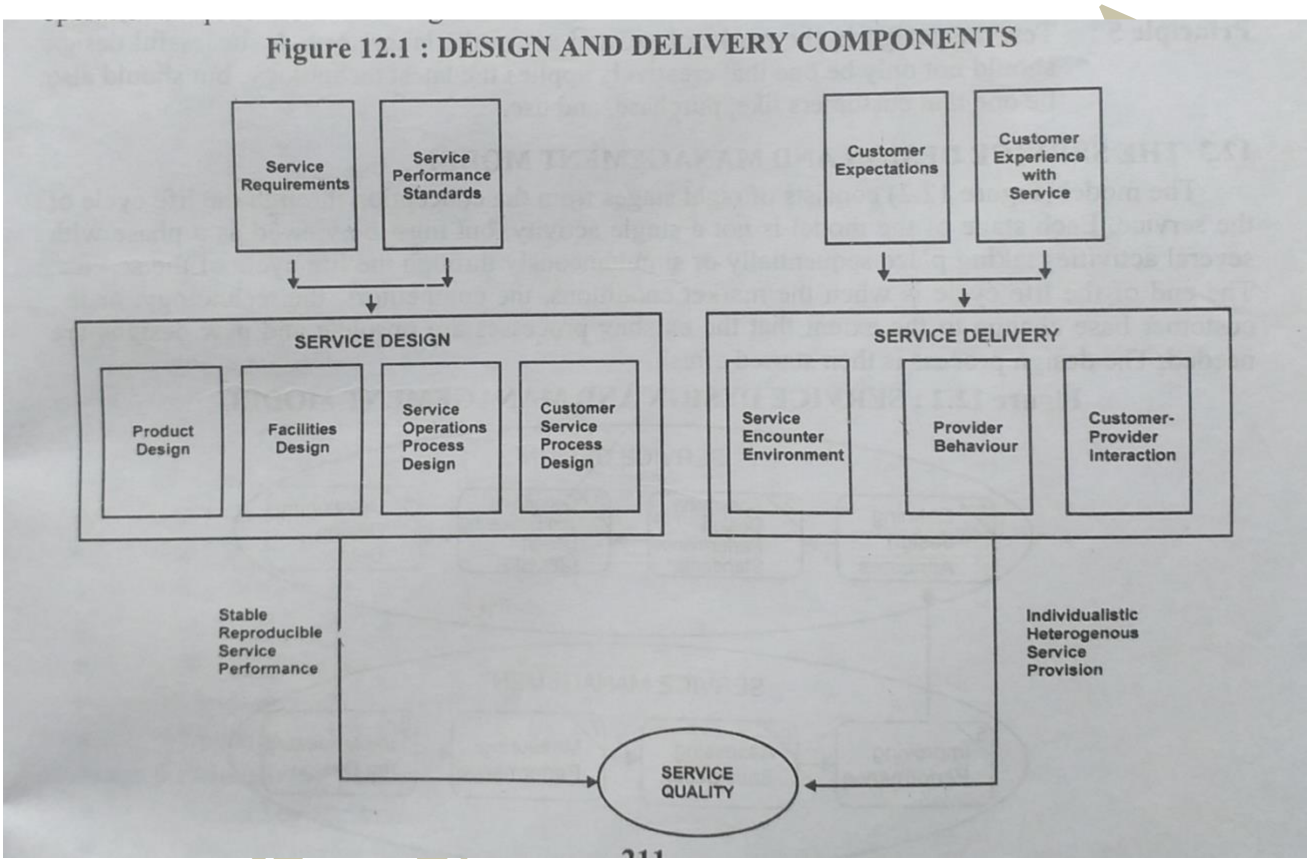
For Example: in the car rental. In addition to the operational steps the representative may greet the customer on arrival refer to him by name, ask him for his preference of cars, and bid him farewell on departure.

The customer service and service operational activities together make up the car rental process. The quality of the service experience depends on the performance of both types of activities. These activities therefore need to be designed together.

Fig: Design and Delivery Components



Design Methodology

A real design exercise involves the complex interactions of a variety of technical and non-technical factors that affect the quality of the design. In order to design a product that can be competitive in the market, it is imperative to employ a methodology that integrates the engineering aspects of the design with the marketing and management principles that are required to ensure the commercial viability of the product. Such a methodology is referred to as total design.

***Five principles need to be followed in order to adopt a total design methodology*.**

Principle 1: Involve the customer in all stages of the design process.

Principle 2: Derive the specifications of the design from these customers and not from previous designs or internal organizational criteria.

Principle 3: Derive the technical aspects of the design from these customer provided specifications. In other words, the technology should be a derivative of the customer needs and not the other way around.

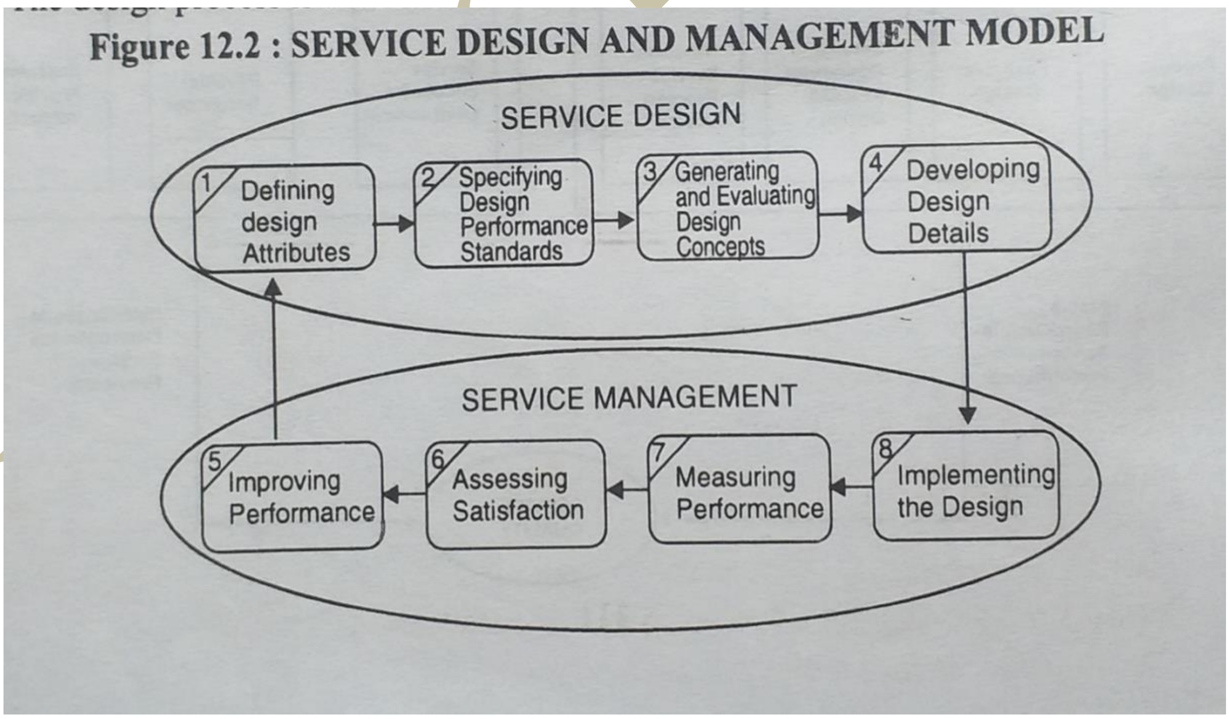
Principle 4: Design the service using a multi-function team with representatives from all relevant organizations.

Principle 5: Test the design in the marketplace, and not in the laboratory. A successful design should not only be one that creatively applies the latest technology, but should also be one that customers like, purchase, and use.

THE SERVICE DESIGN AND MANAGEMENT MODEL

The model consists of eight stages from the conception through the life cycle of the service. Each stage of the model is not a single activity, but must be viewed as a phase with several activities taking place sequentially or simultaneously through the life cycle of the service. The end of the life cycle is when the market conditions, the competitors, the technology, or the customer base change to the extent that the existing processes are obsolete and new designs are needed. The design process is then started afresh.

Fig: Service Design and Management Model



This does not imply that new design activity should only be begun at the end of the life of a service. Rather, the design of new processes should be an ongoing activity, and new designs should be phased in smoothly before the old designs lose their effectiveness. If is too late to introduce new designs after customers complain or switch to the competition's service. The development and introduction of new services and enhanced processes should be an integral part of the service management strategy of the firm.

Overview of Model Stages

Stage 1: Defining design attributes

- Identify the key customers of the service
- Determine the needs that customers expect the service to fulfil
- Prioritize the needs in order of importance
- Specify the attributes required by a service that meets these needs
- Create quantitative measures for design attributes
- Establish the relationships between needs and attributes
- Determine the most important attributes

Stage2: Specifying performance standards

- Identify the customers' desired performance level for each attribute
- Analyze the performance of the competitors
- Determine the relationship between performance and satisfaction
- Specify design performance standards for each attribute

Stage3: Generating and evaluating design concept

- Define the key functions needed to provide the service
- Assemble these functions into processes
- Document these processes using flow charts
- Create alternate design concepts for the service
- Evaluate and select a concept for detailed design

Stage 4: Developing design details

- Partition concept into process-level design components
- Generate design alternatives for each component
- Predict performance of each design alternative
- Evaluate and select alternatives for each component
- Evaluate and select design for implementation
- Test performance of overall service design
- Make and necessary modifications to the design
- Specify detailed functional requirements

Stage 5: Implementing the design

- Develop implementation project plan
- Develop a service construction plan
- Develop a pilot and testing plan

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- Develop a communications plan
- Develop a service management plan
- Implement all the plans

Stage 6: Measuring performance

- Select key attributes to be analyzed
- Measure performance of attributes relative to standards
- Measure capability of attributes
- Measure efficiency of key processes
- Develop reporting and analysis procedures
- Identify attributes whose performance does not meet standards
- Analyze the root cause of poor performance
- Perform any corrective active, if necessary

Stage 7: Assessing satisfaction

- Measure customers' satisfaction with performance of service
- Measure satisfaction relative to customers' expectations
- Measure satisfaction relative to the competition
- Validate these results against those from stage 2

Stage 8: Improving performance

- Estimate relationship between financial objectives and overall satisfaction
- Set strategic satisfaction targets
- Estimate relationship between satisfaction and attribute performance
- Select one or more attributes for improvement, and set targets
- Estimate relationship between service-level and process-level attributes
- Select process-level improvement alternatives
- Evaluate the benefits and costs of different improvement alternatives
- Select and implement optimal process improvement initiatives

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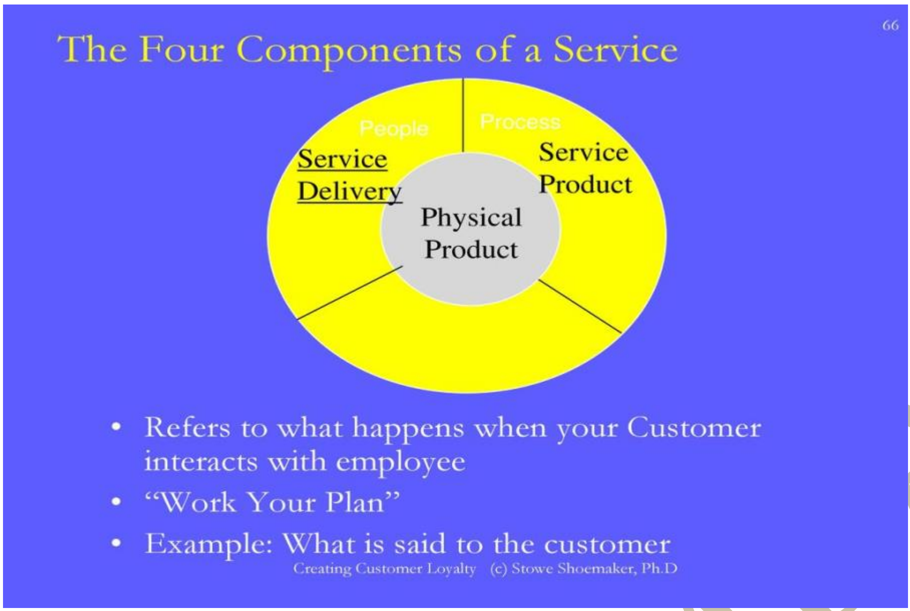
Fig: The Four Components of a Service



Design Elements

In designing any service, eleven key factors should be taken into account

1. Customer Contact
2. Service Mix
3. Location of Service Consumption
4. Design of Service Facility and Accessories
5. Technology
6. Employees
7. Organization Structure
8. Information
9. Demand and Supply Management
10. Procedures
11. Control

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