Rajdhani College of Engg And Management, Bhubaneswar

Class Notes

Subject- Services Marketing (SM)

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Semester- 3rd

Module- I

Introduction to Service Marketing

- A service may be referred to as an intangible and more perishable component of any business offering – absolute package as a core product or as an augmented form to promote the tangible products.
- Normally, the production and consumption of services takes place simultaneously.
- The purpose of creating such may be business as well as purely service to the society.
- There is big difference between the services offered by ‘service not for profit’ organizations and ‘service at a cost’ organizations. ϖ Let’s consider ‘service at a cost’ proposition in business.

Definition

- American Marketing Association (1960) has defined service as “activities, benefits or satisfactions which are offered for sale or provided in connection with the sale of goods”.
- Zeithmal and Bitner said “services are deeds, processes and performances”.

Examples of Services and Service Industry

1. Health Care: hospital, medical practice, dentistry, etc.
2. Professional Services: accounting, legal, architectural, research and innovation, consulting, management contracts, etc.
3. Financial Services: banking, investment advising, insurance, etc.
4. Hospitality: restauran hotel/motel, bed and breakfast, ski, etc.
5. Travel: airlines, travel agencies, theme park, etc.
6. Public Service: national security, defence, general admin., etc.
7. Social Service: politics, economic development, NGO/INGO, etc.
8. Education: education, counselling, coaching, teaching, etc.
9. Others: hair style, pest control, plumbing, lawn maintenance, counselling services, health club, etc.

Development of Service Marketing

1. Evolution of human being as a social entity required services of others for living better lives.
2. The financial prosperity and well-being of people made it realize the need of special services in which they could spend their disposable money.
3. Changing behavior and values of people forced them realize the need of services.
4. Felt importance of spending some portion of life in pleasure, entertainment and leisure resulted evolution of services as alternatives to it.
5. A range of survival needs also resulted in evolution of services.
6. To facilitate the challenges of material developments, it required a number of services.
7. Various new inventions required to be attached with a number of services.
8. More service sectors evolved to create jobs, empowerment and employment as part of government and social development missions.
9. Due to more educated and aware people, they got realized a number of services required.
10. To meet the ever-increasing and ever-evolving unmet needs of the human beings.
11. Economic changes
12. Service as a business imperative in manufacturing and IT
13. Increasing needs of professional services, especially in hospitality, research and innovation
14. Industrial deregulation; political legal changes; policy changes
15. Globalization
16. Socio-demographic changes
17. Technological changes

Characteristics of service compared to goods

Sl. No.	Services	Goods
1	Intangible	Tangible
2	Heterogeneous	Homogeneous
3	Are produced in buyer-seller interaction	Are produced in the factory
4	Production, distribution and consumption take place simultaneously in the case of services	The three are separate and independent functions

5.	**Services cannot be stored**	**Goods can be store.**
6.	**In the sales of services, transfer of ownership will not take place.**	**In the case of goods it does take place.**
7.	**Services are not produced using raw material. They are automatically formed with the change in environment.**	**Goods are produced using raw material.**
8.	**The quality of service varies step to step with the changing environment.**	**Once goods are produce their quality remains uniform.**

Emergence of service economy

The service sector is an important component of any country's economy. It makes a direct and significant contribution to GDP and job creation, and provides crucial inputs for the rest of the economy, thus having a significant effect on the overall investment climate, which is an essential determinant of growth and development. Some service sectors such as the health, education, water and sanitation sectors are also directly relevant to achieving social development objectives.

Indian has been pursuing a planned approach for achieving economic growth and development.

The economic activities that were to be developed were categorised into 3 sectors

The main sectors of the economy are:

1. Primary sector – extraction of raw materials – mining, fishing and agriculture.

2. Secondary / manufacturing sector – concerned with producing finished goods, e.g. Construction sector, manufacturing and utilities, e.g. electricity.

3. Service / 'tertiary' sector – concerned with offering intangible goods and services to consumers. This includes retail, tourism, banking, entertainment and I.T. services.

One of the key measurements of growth of the services sector is its contribution to the Gross Domestic product (GDP) of the country. Services for the purpose, there are two important dimensions that need special attention. They are the hidden services and the services in the unorganised sector. Hidden services are the services that are used internally by the manufacturing organization. The output value of such services becomes part of the output of the tangible goods.

The value of such services are hidden and taken as the value of tangible goods for the purpose of ascertaining the GDP. Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 92.26 lakh crore INR in 2018-19. Services sector accounts for 54.40% of total India's GVA of 169.61 lakh crore Indian rupees. With GVA of Rs. 50.43 lakh crore, Industry sector contributes 29.73%. While, Agriculture and allied sector shares 15.87%.

Reasons for growth of services in India

- Economic affluence
- Changing role of women
- Cultural changes
- IT revolution
- Conservation of natural resources
- Development of markets
- Increased consciousness of health care.
- Economic liberalization
- Export potential

Challenges for Service Marketers

- 1. Since the services are intangible, it is quite difficult to define and improve their quality.
- 2. Communicating and testing new services is always complicated as they do not have any tangible form.
- 3. Communicating and maintaining a consistent image is always a tough task.
- 4. Motivating and sustaining employee commitment to serve the best is a highly complicated task.
- 5. Coordinating marketing, operations and human resource efforts for best service delivery is another challenge.
- 6. Setting prices of services is very much difficult job.
- 7. Standardization and customization of services is difficult.

Service encounter or moment of truth

When the customer interacts with the service firm. e.g. among the service encounters, a hotel customer experiences are checking into the hotel, being taken to a room by a bell persons, seating a restaurant meal, requesting a wakeup call and checking out.

Types of service encounters

Remote encounter

Encounters can occur without any direct human contact such as when a customer interacts with a bank.

Phone encounter

More and more services are being delivered through technology, particularly with the advent of internet application. Retail purchases, airline ticking, repair and maintenance troubleshooting and package and shipment tracking are just few examples of service available via the internet.

Face to face

This 3rd types of encounter is the one that occurs between an employee and a customer in direct contact.

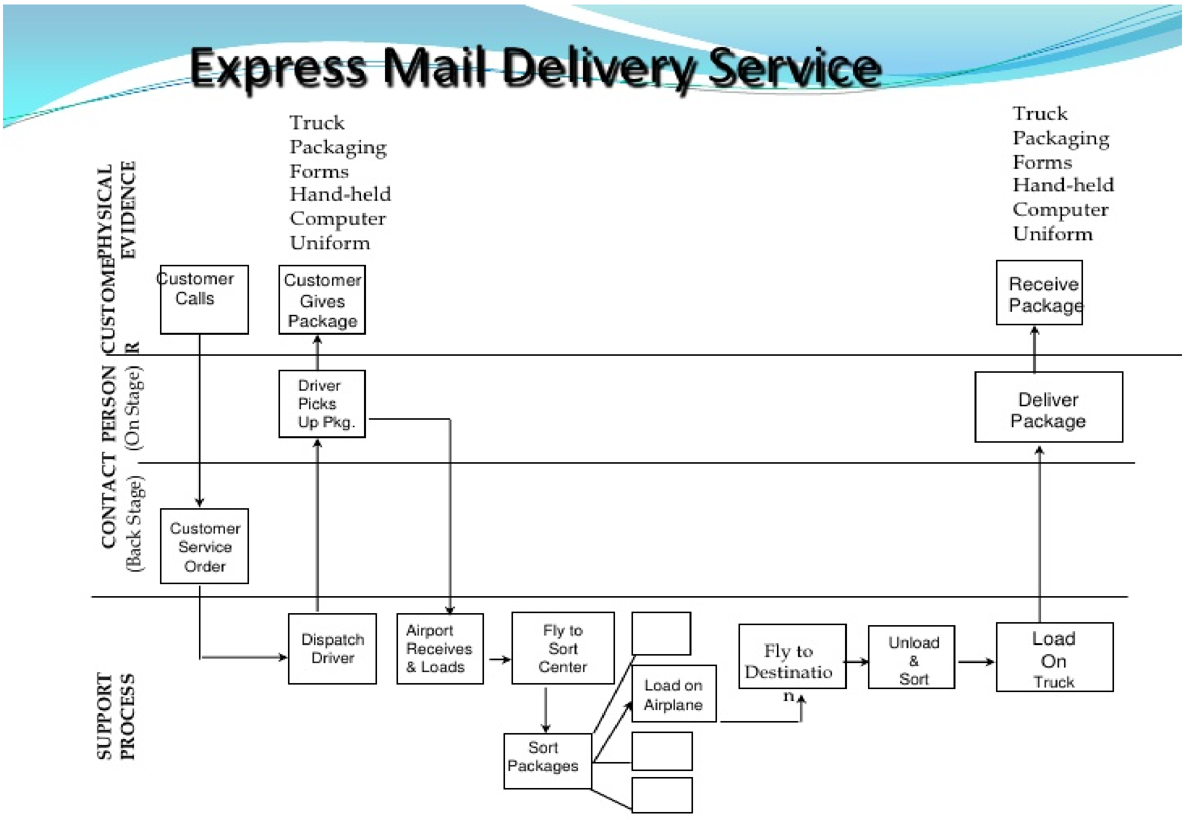
Service Blueprint

- ✓ A service blueprint is a map accurately portrays the service system. So that the different people involved in providing it can understand and deal with it objective regardless of their roles or their individual points of view.
- ✓ Blueprints are particularly useful at the design stage of service development.

Blueprint components

- ✓ Onstage- contact employee actions
- ✓ Backstage- contact employee action
- ✓ Support processes

E.g.



Application of blueprint

New service development-

- ✓ Concept development
- ✓ Market testing

Supporting a "zero defects" culture

- ✓ Managing reliability
- ✓ Identifying empowerment issues

Service recovery strategies

- ✓ Identifying service problems
- ✓ Conducting root cause analysis modifying process

Importance of service blueprint

- ✓ Creating realistic customer expectations
- ✓ Empowering human elements
- ✓ Rendering the service as promised
- ✓ Providing necessary tools as system specifications and personal preference databases

Service triangle

Introduction

- This strategic models for service marketing was developed by Christian Gronross.
- This model is called the service triangle
- Gronroos has identifies 3 important groups that play critical roles in successfully accomplishing organizational goals.
- They are company, employees and the customers.
- It suggests the design of 3 marketing programme as the integral parts of the services marketing programme.
- The models call for a special marketing programme between the company and its employees which is termed as internal marketing.
- The 2nd marketing programme is between the company and its customers and is termed external marketing.
- The 3rd marketing programme is between employees and customers and is termed interactive marketing.

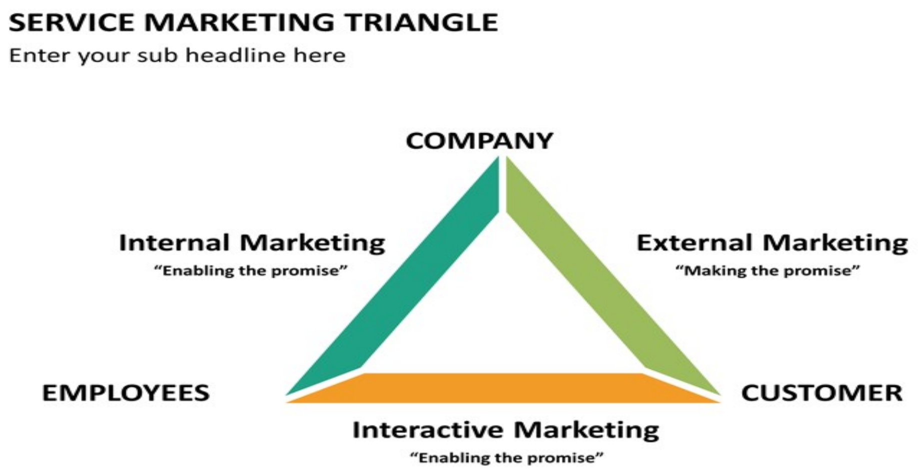
WAYS TO USE THE SERVICES MARKETING TRIANGLE

Overall strategic Assignment

- How is the service organisation doing on all three sides of the triangle?
- Where are the weaknesses?
- What are the strengths?

Specific Service Implementation

- What is being promoted and by whom?
- How will it be delivered and by whom?
- Are the supporting systems in place to deliver the promised service?
- **Overall Strategic**
- **Assessment**
- **Specific Service**
- **Implementation**



External Marketing : "Setting the Promise"

- Marketing to END-USERS.
- Involves pricing strategy, promotional activities, and all communication with customers.
- Performed to capture the attention of the market, and interest in the service.

Interactive Marketing : (Moment of Truth, Service Encounter)

- This refers to the decisive moment of interaction between the front-office employees and customers.
- This step is of utmost importance, because if the employee falters at this level, all prior efforts made towards establishing a relationship with the customer, would be wasted.

Internal Marketing : "Enabling the Promise"

- Marketing to EMPLOYEES.
- Involves training, motivational, and teamwork programs, and all communication with employees.
- Performed to enable employees to perform the service effectively, and keep up the promise made to the customer.

Strategic implementation of service triangle

- Companies should more concentrate on customer satisfaction rather than its own convenience.
- Good ambience and culture should be developed and maintained in the organization.

- Service personnel should be very good at knowledge skills and empowered in performing the task.
- Good delivery associated activities should be developed.

Servicescape

- Services are intangible; customers often rely on tangible cues, physical evidence to evaluate the service before its purchase and to assess their satisfaction with the service during and after consumption.
- Servicescape is a model developed by Booms and Bitner.
- They emphasize the impact of the physical environment in which a service process takes place.
- The aim of the servicescapes model is to explain behavior of people within the service environment with a view to designing environments that does not accomplish organisational goals in terms of achieving desired behavioural responses.

  Physical Environment
- The environment in which the service is delivered and where the firm and the customer interact and any tangible commodities that facilitate performance or communication of the service.
- **Example- When you visit the website for Taj Hotels, you can look at pictures of its newest hotel and make reservations quickly.**

Servicescape	Other tangibles
Facility exterior	Business cards
Exterior design	Stationery
Signage	Billing statements
Parking	Reports
Landscape	Employee dress
Surrounding environment	Uniforms
	Brochures
Facility interior	Internet/Web pages
Interior design	
Equipment	
Signage	
Layout	
Air quality/temperature	

Types of servicescape

On the basis of affects employees, customers and their interaction the servicescapes are classified:

- **Self service-**in which the customer performs most of the activities and few if any employees are involved e.g.- ATM, Movie theaters etc.
- **Remote service-** which has little or no customer involvement. E.g. Telecommunication, financial consultants tec.

- **Interpersonal** – services are placed between the two extremes and represent situations in which both the customer ad the employee are present and active in the servicescape. E.g.- hotels, restaurants, hospitals, educational settings and banks.

Servicescape usage	Elaborate	Lean
Self-service (customer only)	Kiosk, ebay	Shopping mall information
Interpersonal services (both customer and employeee)	Hotel Restaurants Health clinic Hospital Bank Airline School	Dry cleaner Hot dog stand Hair salon
Remote service (employee only)	Telephone company Insurance company Utility Many professional services	Telephone mail-order desk Automated voice-messaging-based services

Impact of Service Environment

- Purchase decision
- Expectations
- Service quality evaluations Satisfaction

Service Mix

Introduction

- The essence of every marketing strategy is the marketing mix.
- For service marketing, due to special and unique features the marketing mix is extended to include physical evidence, process and people.
- Thus marketing mix of services are:

1. Product
2. Price place
3. Promotion
4. People
5. Process
6. Physical evidence

Product

- A product is a bundle of utilities; an item that is built or produced to satisfy the needs of a certain group of people.
- The product can be intangible or tangible as it can be in the form of services or goods.
- There is no point in developing a product or service that no one wants to buy.

- Successful companies find out what customers need or want and then develop the right product with the right level of quality to meet their expectations, both now and in the future.
- The perfect product provides value for the customer.
- Regularly cheek what your customers think o your product and your supporting services.

Component of products

- Physical goods/ services
- Quality level
- Packaging
- Brand
- Warranties

Price

- A product is only worth what customers are prepared to pay for it.
- The price needs to be competitive
- Profit- pricing is the only element of the marketing mix that generated revenue
- Price positions in the marketplace.
- The more charge the more value or quality customers expect for their money.
- Existing customers are generally less sensitive about price than new customers – a good reason to look after them well.

Pricing components

- Flexibility
- Price level
- Terms
- Discounts
- Allowances

Place

- Position and distribution the product in a place that is accessible to potential buyers
- The product must be available in the right place, at right time and in the right quantity, while keeping storage, inventory and distribution costs to an acceptable level.
- Place also means ways of displaying product to customer groups. This could be in a shop window but it could also be online.
- Mobile is an increasingly important purchasing channel for consumers, so it's high time to optimize website.
- Google search now penalizes websites that are not optimized for mobile, potentially making it more difficult for consumers to find you.

Place components

- Channel type
- Outlet location
- Transportation
- Storage
- Managing channel

Promotion

- Promotion is the way a company communicates what it does and what it can offer customers.
- Paid media- Incentive(Brand ambassador) & Advertising (Banner, Display, Paid, Endorsements)
- Owned properties- Digital properties(Catalog, Websites, Blog, mobile, email) & Embassies (Facebook, Twitters, Youtube, LinkedIn, Instagram, Google)
- Social platforms- Influencer engagement (Loyalty, response etc.)
- Sales Promotion
- Publicity
- Personal selling

People

- All human participating in the delivery of a service provide.
- How these people are dressed
- Their personal appearance and heir attitude and behaviours all influence the customers' perceptions of the service.
- People in services are consist of employees and customers

Employee

- recruiting
- Training
- Motivation
- Rewards
- Team works

Customers

- Education
- training

Process

- The actual procedures, mechanisms and flow of activities by which the service is delivered.
- The actual delivery steps that the consumer experience or give customers evidence on which to judge the service.

- Some services are very complex, requiring the customer to follow a complicated and extensive series of actions to complete the process.

Process

- Flow of activities
- ✓ Standardized
- ✓ Customized
- Customer involvement

Physical Evidence

It includes all the tangible representations of the service such as brochures, business cards, reports, format etc.

- Physical evidence includes
- Facility design
- Equipment
- Employee dress
- Other tangible
- ✓ Reports
- ✓ Business cards
- ✓ Guarantees

Module-II

Service Quality

Introduction

Service quality is very important for customers as well as service providers. To achieve competitive advantage, the service organizations are focusing more on the quality. The concept of quality has drawn massive attention in academic and business circles. 110 There are many definitions of quality. The word quality means different things to different people. To address such issues as the measurement of service quality, the identification of causes for shortfall in service quality and the design and implementation of corrective actions, it is essential for the service providers to have a common understanding of the concept of quality.

There are a lot of challenges that service marketers face due to the basic difference that prevails between service and goods. Some of the challenges that they constantly face are:

- Understanding customer needs and their expectations from service;
- Tangibility the service offering;
- Dealing with different types and varieties of people ñ internal as well as external customers ñ as also the delivery issues;
- Keeping promises made to customers.
- But the most intriguing challenge is the measurement and monitoring of quality.

Service Quality Issues

Defining quality in service:

Quality is defined by the degree of compliance between stated goals and achieved targets. It is therefore rather easy to measure and conform to a standard. In service it becomes difficult to comprehend the concept of quality and measure it. This is due to the mother of all characteristics for services ñ the intangibility factor ñ and it makes measurement and assessment of service quality extremely challenging. Perception of service quality is, additionally, felt by all parties involved in a service delivery process: service providers, customers and suppliers. They should therefore understand each otherís definitions of service quality. Quality can be viewed from multiple perspectives:

Product-based

The definition is based on measurable parameters. It is suitable for goods, but becomes a challenge in services. The number of times a telephone rings before the receiver is picked up by a service provider can be a basis of measuring responsiveness.

Service Quality Models

Gap Model of Service Quality

This model can help a firm desirous of improving service quality to focus better on its strategies and service processes. This model can not only be used to find and identify areas in service delivery and designs (which might lack quality), but also measure and monitor quality in service. Quality in service is as perceived by the customer. There is no other way to either comprehend or administer. As service is intangible; the only way to measure quality in service is to measure the expectation of the customer before the receipt of service and measure his perception after the experience, that is, the service encounter. The gap between the two is a measure of the service quality. The larger the gap, the worse is the service quality; the narrower the gap, better the service quality of the firm; i.e., the firm is successful in meeting the customerís expectations... so far. the measurement of the expectation of the customers (in this case, students) before the service delivery (before admission), and the measurement of perception of the experience, after the service encounter (after admission, during the 2-year course and after the convocation); Thus measuring the gap between the two. The model professes two types of gaps:

The Customer Gap

Customer Gap is the gap between customer expectations and customer perceptions. This, in other words, is the service quality shortfall as seen by the customers. Customers develop expectations from receipt of external stimuli from many sources - ranging from those that are company-controlled to social influences. These form the bases of his reference-to-come for the service experience. The customer is perceptions indicate the service as actually received, for all practical purposes, since what we perceive is what is real to us. Perceptions are everything. Company-controlled external stimuli are: service product/offer, price, advertising, promotions, displays, outlets etc. Social influences as external stimuli are: word of mouth communications and reference groups. Other influencers of expectations are: personal needs and past experience of the customer. The customer gap indicates the difference between actual performance and the customer's perception of the service. There are a lot of subjective judgments made by customers. Last experiences may prejudice them and change their estimation of quality. Service quality is all about the responsiveness of an organisation to meet the customer is expectations. The service performance is measured by the perceived service quality. The quality of a service has two components:

Technical Quality: This is the end result of the service operations process.

Functional Quality: This is about the process, especially concerning the interaction between the customer and service provider.

These two factors inject a heavy dose of subjectivity into the service process.

Any service organisation would be desirous of closing the gap between what is expected and what the customer has received. To them, this would be absolutely necessary to build a long- term relationship with the customer, to retain him. But in order to close the Customer Gap, another type of gap has to be closed: the Provider Gap.

The Provider Gap

There are four provider gaps and these in sum total are the cause of the Customer Gap. They are the shortfalls within the service firm. To close the customer gap, the provider gap (or, as also known, Company Gap) has to be bridged. The four provider gaps are:

Gap 1: Customer Expectation ñ Management Perception Gap

It is the inability of top management to perceive what the customer wants, and is the main reason why a firm cannot meet a customer is expectations. The company is blinded by a perceptual veil of ignorance, arrogance or criminal neglect. Some of the reasons why Gap-1 can occur are:

- Inadequate marketing research;
- Lack of upward communication in the organisation;
- Insufficient focus on relationship building etc.

Gap 2: Management Perception ñ Service Quality Expectation Gap

This gap is created in the design process of the service product and lying down of specifications for service quality during service transactions. In the design process, this gap arises during the translation of management ís perception of customer-expectation into design specifications. Managers would set specifications for service quality on the basis of what they believe the customer requires a very dangerous presumption. The implications of this gap are that even if the firm has crystal-clear knowledge and understanding of the customerís expectations, there would be scope for misunderstanding this, leading to setting the wrong specifications, service designs and standards.

Some reasons for Gap-2 to occur are:

- Failure to connect service design to service positioning
- Unsystematic new-service development process

- Lack of customer-defined service standards
- Absence of a formal process of setting service quality goals, etc.

Gap 3: Service Quality Specifications ñ Service Delivery Gap

This occurs at the service provider level when there is deviation from service standards specified and actually delivered to the customers. This probably is the bane of all public sector institutions, be they banks, insurance companies, hotels, travel agencies, hospitals or any such. The management is perception and service design standards might be accurate and perfect. But if the interacting service provider during service delivery falls short of the standards specified, the customer will get an impression of a poorly performing firm. This becomes especially important for that firm that is heavily dependent on people in performing the last transaction.

Some of the reasons for Gap-3 to occur are:

- Ineffective recruitment, role ambiguity;
- Role conflict;
- Lack of empowerment, control and poor teamwork;

Failure to match supply and demand (in a retail store there would be peak crowds during the evenings and slack demand during the afternoons, but the employee strengths would be the same), customers not co-operating or failing to live up to their roles (lack of knowledge and responsibilities); Channel conflicts, etc. The service firm must ensure that systems, processes and people are in the right place. This will make sure that service delivery is as per the design standards set.

Gap 4: Service Delivery ñ External Communications to Customer

This is essentially a communication gap. The gap is the difference between service delivery intention and capability and what is being communicated to the customers. An over-hyped communication raises the expectations of the customer - and his benchmark of service quality and his expectations from the service delivery sky-rocket. It will be difficult then for the firm to meet the expectation and there would inevitably be a shortfall. The tragedy is the customers would have been satisfied without the hype. But now they go back with memories of disappointment and are actually dissatisfied. This results from inadequate communication from the firm.

The causes of Gap-4 are:

- Lack of cohesiveness in marketing communications;
- Absence of strong internal marketing programme, not being able to meet customersí expectations through communications;
- Over-promising in advertising and personal selling;
- Inadequate horizontal communication between sales and operations;
- Differences in policies and procedures across branches, etc.

Pricing of Services

Introduction

Pricing is also one of the tactical tools least understood by the marketer. It is the most flexible of all marketing tools (mixes), and can be changed even at the retail level. Pricing decisions have far reaching implications for the organisations profits, market share, sales and social appeal. Pricing in case of services is more difficult than in case of products. If you were a restaurant owner, you can charge people only for the food that you are serving. But then who will pay for the nice ambience you have built up for your customers? Who will pay for the band you have for music? Thus, these elements have to be taken into consideration while deciding the prices of your food. In this unit, we will do a detailed study of the pricing strategies of services.

Concept of Value and Price in Services

Price is what customers are willing to pay for services. How much a customer has to pay depends on the value he perceives in the service offer. The payment can be in many forms - money, barter, or return services. Price can be simply explained, thus:

Price = quantity of money received by service provider/quantity of service received by the buyer

Uses and Objectives of Pricing

The importance of pricing to the development of marketing strategy is reflected in the diverse range of strategic uses to which it is put at the beginning of the life of a new service, price is often used to gain entry to a new market. Price is used as a means of maintaining the market share of a service during its life and is used tactically to defend its position against competitors. Ultimately, for organisations working to financial objectives, prices must be set at a level that allows them to meet their financial objectives.

Organisational Objectives through Pricing

Profit or Income Related Objectives

To Achieve a Targeted Return on Investment (ROI): Many service firms work on a target return on sales or on its investments as an objective. Thus, if Crossword, the book retailer, works on a 25 per cent return on sales, they would appropriately add an amount called mark-up to its cost of the book. The mark-up would cover most of its anticipated costs as well as make provision for profit. Targeted return on investment is taken by a firm with respect to its assets and liabilities, that is, its net worth. The industry leader mostly does this - as their pricing can be independent of competition.

To maximize profit:

Service firms require profit in order to enable them to pay dividend to its investors, pay rent and other utility bills, pay salaries and wages to its staff and also invest in new technologies and other expansion plans. But to maximize profits, the service firm requires data on its segments, possible sale in each segment at different prices, as also estimates of fixed and variable costs.

Volume or Sales Related Objectives

To increase sales volume: A service firm pursues this pricing objective to grow rapidly (market penetration) and/or to discourage new entrant competition. The goal is usually described as a percentage increase in volume sales over a certain period of years. To achieve this, the service marketer could either discount the price or have an innovative pricing strategy.

b-To maintain or increase market share: The market share of a firm is indicative of its market position. Any slippage in market share will not only reduce revenues but would also be a public relations disaster. Market share can fall due to aggressive competition (better-priced rival products, better substitutes) or external factors like currency devaluation. The latter might make imports cheaper and exports expensive. Falling market share would make capacity utilisation impossible and increase idle cost. A hotel which loses market share will suffer such losses - apart from loss of prestige

Status-quo Oriented Objectives

Prices are set only to maintain the firm is previous position .The most passive of all pricing goals The firm really seeks to avoid a price war.

Competative: Service firms that enter a market late - like most private insurance companies in India - try to set a price as prevalent in the market. The main objective is to make an entry in the market than to make a profit. Often, the new entrant safely brackets himself to a successful firm to get the same positioning and image without going through the hassles of complex decision making models. For example, a new B-school might structure its fees on similar lines as the competition.

Price stabilisation: Here a service firm tends to ìfollow the leaderî when setting its prices. The main objective is not to start a price war, which would be harmful to all the players.

Society Oriented Objectives

Certain service firms set prices not for profit, sales or beating the competition. Their objective is social responsibility or responsibility to the customer. They might actually make losses but the objective is the general benefit of society at large. Most metro railway ticket prices, public library memberships and postal services follow societal pricing goals.

Pricing Approaches

It is important for a service management student to know the difference between price and pricing. While pricing is strategic, an activity under taken by the top management to decide the way revenue would come, price is tactical, a one-time decision affecting the whole organisation over a period of time. Price is the end result of pricing, which ends in a figure printed on the price-tag or label. It is through price (apart from the other elements of the marketing mix) that the firm would generate revenue, while pricing is a process leading to policy, on the basis of which prices of products are finalized.

There are four important bases for price determination:

- What it costs to produce a service.
- The amount that consumers are willing to pay for it.
- The price that competitors are charging.
- The constraints on pricing that are imposed by government and/or regulatory bodies.

Cost as a Basis for Pricing

Simply put, in this method of pricing, the service marketer adds up all his costs, adds his profit margin and the result is the price. The skill required of the service marketer is the ability to identify and measure the different types of costs: direct, indirect, fixed and variable, etc. If the marketer makes any error in identification or measurement of a particular type of cost input, then it is going to affect his profitability - and he may not even know about it. Worse, he may not know which service component is contributing to profits and which is not.

The cost structure of a service firm can be explained thus:

The total cost of producing a service can be divided into costs which are variable and those that are fixed. Variable costs increase as service production increases; fixed costs do not change even if an additional unit of service is produced. Fixed costs therefore cannot be attributed to any particular unit of output. In spite of many disadvantages, there are many reasons why the type pricing methods are so widely used in the service sector:

Essentially a simple model to follow in pricing decisions, it can be adopted by entrepreneurs, small-scale service providers like restaurant-owners and leisure and tourism-oriented professionals like travel agents, tour-operators, etc. Prices are easy to calculate and especially in services, where the offer has to be tailored to the individual needs of customers, it is easier to empower price decisions for services. The predictive nature of the method helps the service marketer to better plan his resources and potential. He does not have too many variables affecting his plan outlay and therefore can look forward to realistic forecasts. With cost-oriented pricing method, the service marketer, like a travel agent, has a better knowledge of his earnings and expenditures. Cost-based pricing is adopted when the precise nature of the service that will actually be provided is not known at the outset or its details and components, etc., are unknown. A service provider is allowed by many professional associations to increase prices beyond those originally agreed in his estimate - on the basis of the actual costs incurred.

Measured against these advantages, there are many problems for a service marketer to price his services on the basis of historical costs:

Cost-based pricing does not take into account competition that a service might face at any given time. Neither does it take into account that some customers may value the same service more highly than others. It is sometimes more difficult to calculate costs in service than for goods ñ mainly due to the intangibility factor. The structure of costs facing many service businesses is typically different from goods. It is easier to determine costs for previous accounting periods (historical) than to forecast what these costs will be in the future (predictive).

- Cost-based pricing can be of two types:
- Full cost or mark-up pricing
- Marginal Cost or Contribution pricing

Full Cost or Mark-up Pricing

Here prices are based on total or full cost plus the desired profit. Retailers would call this desired profit as mark-up. The break-even analysis is a variation of this method. As elaborated before, it does not take into account different types of costs. These costs, in addition, are affected by changes in the volume of output or the type of output. Full cost pricing ignores consumer demand.

Marginal Cost Pricing

A special kind of cost-based pricing occurs when service firms choose not to include their fixed costs. This is normally used when most of the service firm ís output has been sold at a full price that has recovered its fixed costs - but in order to keep its workforce engaged during the slack season, the firm reduces its price. In this way it manages to cover its variable costs. Those service industries with low short-term supply elasticity and high fixed costs, like BPOs, use marginal cost pricing extensively.

Competitor-based Pricing

This pricing is based on what the competitor is offering. A service firm uses this method to make an entry in the market, finding an appropriate price bracket for its service offer - without having to go through a trial and error process - by pegging itself to the competition. The service marketer needs to be astute enough to recognize who his competition is. The competition could be from firms offering the same services fulfilling similar needs (direct competition - State Bank of India versus Canara Bank), different services fulfilling similar needs (substitute competition a restaurant versus movie theatre versus discotheque) or similar services fulfilling different needs (indirect competition - a theme park like Essel world catering to tourists, lovers, recreationists, shoppers etc.)

Going Rate Pricing: This is used in those services where cost levels are difficult to establish, and a going rate is preferred.

Sealed-bid pricing: This is the system of tenders and quotations where bids are received from service providers. Thus housekeeping, restaurant and canteen contracts, security services, fleet operations, etc., are usually awarded on the basis of predetermined specification fulfilment and their offer price. The appropriate price and therefore the provider are chosen.

Pricing below the Competition

Here, the new entrant service provider will price his offers below the competition, with the full intention of increasing his market share at the time of consideration. Thus, an airline that intends to slash its prices will definitely acquire more customers trading off against profitability. The danger to this approach is that the service marketer might price himself out of business or might invite price retaliation. This will increase commoditisation of the service, make customers very price sensitive and may forever remove concepts of value and brands. The size of the market actually comes down. Often, cash discounts are offered. Certain service providers, like discount retailers, base their lower-than-the-competition price on low mark-up, high volume and minimal service.

Pricing above the Competition

This kind of pricing works only for premium or very distinctive services. If the target market is class (foreign banks, high-end boutiques like Sheetal, Concorde aircraft flights, up-market restaurants, etc.) as opposed to mass, then this pricing method works. But if there is a general recession, then above-the-market pricing is unsustainable.

Demand-based Pricing

This is based on what the customers are prepared to pay. Different customers have different upper-ceilings on the price that they are willing to pay for a service. The skill required for a service marketer is a fine knowledge of consumer demand and the consumer ís ability to pay (correct identification of the early adopters, middle-majority and laggards in a market) Price discrimination logically takes place here.

Distribution of Services

Introduction

A distribution channel consists of a set of people or firms who are intrinsically involved in the transfer of goods or services from the producer to the end user. The end user could either be an individual consumer or an industrial consumer. A channel of distribution includes the producer of the goods and services, the consumer of the same and a series of intermediaries like wholesalers, dealers, retailers, agents, etc. Place in case of services determine where is the service product going to be located. The best place to open up a petrol pump is on the highway or in the city. A place where there is minimum traffic is a wrong location to start a petrol pump. Similarly, a software company will be better placed in a business hub with a lot of companies nearby rather than being placed in a town or rural area.

Role of Intermediaries

Intermediaries play the following roles:

Information Flow: The intermediaries like retailers, wholesalers, dealers, stockists, agents, buyers, etc., are important sources of information for the marketer. They are in touch with their respective customers, other traders and competitors and this information flows to the service marketer with careful management. The intermediaries are also one of the early warning systems for any of the following changes:

Customer demographics and psychographics: A retailer will come to know the changes in the customer profile in his catchments area, their spending capability, addresses, average family size, occupation, their lifestyles and attitudes etc. So will an agent for a life insurance company or an agent in the real estate business. Wholesalers are a source of information about the strengths and weaknesses of the retailers.

Media habits: The retailers, news agents and cable operators have their fingers on the pulse of the media habits of the public, and the service firm should be astute enough to tap this source. They are much updated on which TV channels are watched by which segment of viewers.

Entry of a new competitor, brand or the practice of a new marketing method or promotion: The retailers, wholesalers and agents are also the most important sources for any changes or entry in the composition of competitors. If a new brand or service product enters the market, the service firm could be alerted by its distribution chains. Similarly, if a competitor tries out a new promotion scheme and if it happens to be effective (or ineffective, as the case may be) the service firm would be better off being warned than taken by surprise. For example, in the fast growing cellular phone services, the effectiveness of one competitor ís promotion scheme is tracked by others. The service marketer avoids the use of middlemen like dealers, stockists, warehouses and wholesalers, etc., because of the intangibility factor. Service retailing would entail servicing the consumer with information or the service itself. Thus, the authorized sales outlets of a mobile phone service provider would keep not only the SIM cards but also handsets, while handling bill payments, enquiries, etc.

Promotion Flow: While the service firm does external marketing to its customers using the mass media or through direct marketing, the channel or the intermediaries are an essential route for promotional information to travel from the former to the latter.

Pre-Sales Service: It is thanks to the channel members that the manufacturers or the service firms have been able to reduce the number of contacts with the customers and concentrate on their core offers. The channel members and other facilitators take part in other marketing activities preceding sales like pricing, packaging, marking and assembling goods to suit the final consumer.

Price Stability: Often, the intermediaries absorb price hikes to give an image of stability to the customer. The continuity of price is an attempt at overcoming intra-intermediaries competition.

Post-Sales Service: Intermediaries give post-sales services like home delivery, installation and maintenance and repairs. They also channel the money received as payment, in the reverse direction.

Title to the Goods: Although this does not really work in services due to the intangibility factor, it is very relevant in retailing. Intermediaries like retailers take title to the goods and services and do transactions in their own name. The middlemen share the risks with the vendors of the merchandise and physical possession of the goods enables them to service the customer ís demands in time.

Types of Intermediaries

There are two types of channels at the disposal of the marketer:

Direct distribution: This is a channel that has no middlemen and consists of only the producer and the end user. The firm reaches directly to the consumer and the service industry mostly uses this method of distribution. Only those goods marketers who have strong finances and can afford to lock up a lot of their capital in inventory or whose products have high technology (hi-fi speaker and other audio equipment manufacturer Bose Corporation) adopt direct distribution. Thus a service firm can choose to go direct if it has well trained personnel, as in the case of hospitals, hotels and education services.

Indirect distribution: This distribution consists of the producer, end consumer and at least one middleman or intermediary. For consumer and industrial goods distribution, there is more than one intermediary while services have one middleman, the agent. Airlines use the indirect method, which includes travel agents.

Multiple Channels

Sometimes service marketers resort to more than one channel of distribution for the following reasons:

Targeting a wider market: To get a wider penetration a virtual swamping coverage is done by using multiple channels. Avoiding over-dependence on a single channel: A service marketer could become vulnerable to unreasonable demands in the later stages if it is distributing through only one channel. To spread the risk of dependence, many service marketers like credit card marketers have more than one channel.

Targeting different segments: To make different segments feel that they are being offered exclusive service products for their segments, distribution is made through different channels. Rural areas are sparsely populated and can be covered through agents while in urban clusters it is feasible to go direct with own sales personnel. Some areas may not have the services of specific channel members or intermediaries. Then the service marketer can go direct in some areas and through intermediaries in other areas.

Targeting different markets: like industrial/institutional markets and consumer markets. Many travel and insurance service firms have direct sales operations for large firms while they use the agent route for individual consumers. Selling different and unrelated service offers: like banking and insurance of life and general insurance or mutual funds and travel services, etc.

Factors Affecting Choice of Channels

The primary factor that affects the choice of channel for a service firm is the nature of the market and the service consumer ́s buying behaviour. The secondary factors that affect channel choice are the service product, the intermediaries and the service firm itself.

Target Market Considerations

The following target market characteristics greatly influence the choice of channels:

Type of Market: If the end users are individual consumers, they would be better serviced by retailers; for business or institutional consumers, it would be more feasible to use direct marketing. Thus, cell phone service providers use retailers for selling their SIM cards to individual consumers and have their own sales personnel to service institutional consumers.

Volume of Consumers: If the number of consumers is large, then middlemen are used (travel agencies); if the consumers are lesser in number, like business consumers, then the service firm uses its own sales force (advertising agency and client servicing).

Geographic Cluster: If the consumers are clustered in a certain geographical area then it would be feasible for the service firm to use its own sales force

Size of the service contract: If the size of the service order is large, then the distribution is most of the time direct; if the service order size is small, and then intermediaries are used.

Service Offer Considerations

The choice of channel is greatly affected by whether the offer is a good or a service. Thus the characteristics of a service product, like intangibility, perishibility, inseparability, etc. are major influencers.

Perishability and Intangibility: Lack of storage makes middlemen redundant in service distribution. There is no need for holding inventory, breaking bulk or giving varieties and assortments. Those services which have a higher degree of tangibility in the product-service continuum will require the services of intermediaries (for example, retailing in general, travel, restaurants etc.); those which have the minimum tangible components will be able to achieve their organisational goals through direct marketing (for example, in counselling, psychiatry, medical and legal services, etc.)

Concept Product: If the offer is highly technical and conceptual, making it very difficult for the consumer to envision the end product, benefit and usage, then personal selling and very persuasive marketing would be required. Services like insurance, time-sharing resorts etc. require concept selling and therefore the use of own sales personnel. It would require higher involvement from the service firm in servicing the customer before and after the sales.

Unit Value of the Service: If the service value is small, like collection of bills for cell phone services, then the distribution is done through intermediaries. If the unit value of the service is large, like leased line connectivity for the Internet through ISPs like Satyam, or managing the complete travel business, often the firm does direct distribution.

Intermediary Considerations

The channels chosen by the service firm are greatly influenced by the quality, category and availability of intermediaries.

Availability of Intermediaries: There may not be any intermediaries doing business in the service firmís chosen areas or even if they exist may not be available to the service firm as they may be associated with its competitors. In either case, the onus of developing the intermediary or going for an alternative channel lies on the service provider.

Services Provided by the Intermediaries: An intermediary is chosen for his capability of providing those services which the service firm would normally not be in a position to provide. For international service firms, this would include contacts, market penetration, legal and other services and storage. Services which are on the tangibility continuum, like restaurants (McDonaldís, Pizza Hut, KFC etc.), souvenir shops, retailers, etc. as well as tele-info- communication service providers like cell phone operators and cable channel television will require intermediaries. It will not be feasible for the service firms to involve themselves in the services that the intermediaries can provide.

Attitudes of Intermediaries towards the Service Provider: The intermediaries might have negative or antagonistic attitudes towards the policies of the service provider and may not be willing to be associated with them. In that case, the service firm might have to look at alternative channels, like going for direct distribution. There is already a groundswell of resistance against the entry of mega retailer Wal-Mart in India by several sections of the industry: traders, other retailers, suppliers, politicians, opinion leaders, etc.

Managing Channel Conflicts

Channel conflicts arise amongst channel members when one starts perceiving that the other is a roadblock to his progress. Channel conflicts can also take place when some members perceive differential benefits being given by the service firm to other members.

Horizontal and Vertical Conflicts

There are horizontal and vertical channel conflicts. Horizontal conflicts occur among service firms in the same channel. Thus there might be conflicts between one package-tour Company and another through its channel members. One agent of the travel firm will be in conflict with another agent of another travel firm. This could be due to multiple travel business associations of one agent in conflict with the prevalent understanding.

Example: The associations of travel agents might boycott a certain travel management company for some non-compliance of association ground rules; one travel agent might defy the unwritten ban and might garner business for the travel company.

This resultant conflict amongst agents would be a horizontal conflict.

Vertical conflict occurs amongst members of the same channel across different levels. This kind is the most frequently occurring conflict in channels. It occurs mostly amongst service producers, agents, franchisees and brokers. The conflict could be due to differing perceptions of roles, duties, responsibilities, expenditures, etc. The intermediaries might expect the service firm to foot most, if not all, of the promotional expenses, while the service firm expects the reverse. Conflict can also arise when the service firm uses multiple distribution channels (direct as well as agents and franchisees) or bypass the middlemen in any other ways. Too much control on the channel by the service firm is another source of conflict.

A service firm should take extreme care in the distribution of his service offers. The perception of the consumer about the firm and the quality of offer is based entirely on the type and quality of service encounter that takes place at the point of distribution. All channel conflicts should be resolved and the distribution should be a cohesive whole to the service delivery.

Growth Options and Internationalisation of Distribution

It is imperative for the service firm to control the intermediaries to attain their strategic goals - be it in terms of image, profit, revenue, efficiency, effectiveness of performance, etc. But the problem invariably lies in the perception of the role of the intermediary: as a customer, partner or an extension of the service firm. SOTC/Kuoni would thus always be pondering over how it should take on its intermediaries - as customers to its designs and services, extensions of itself like franchisees or as partners in the marketing mix. Thus, accordingly, there are a variety of intermediary management strategies namely control strategies, empowerment strategies and partnering strategies to grow the distribution channel effectively:

Control Strategies: This strategy can be implemented only when the service principal is more powerful and assertive than the intermediary and dictates the terms of control, compliance and conformance. The service principal derives its power from the following:

- It possesses intimate knowledge of customer preferences;
- It is in possession of unique services and process know-how which has customer demand and loyalty;
- It has access to economic resources and wields other forms of economic power, like deciding compensations, territorial over-rides, new promotional schemes, setting goals and targets, etc.

Thus it can ensure the best performance of the intermediary if it can set up standards for revenues and service performance, measure results and accordingly administer compensation. Measurement of the intermediary ís performance is done by the service firm by monitoring internal data like sales figures, turnovers etc., external data generated through regular customer surveys and competition analysis. Customer surveys are used to develop the Customer Satisfaction Index (CSI), which is used as a performance benchmark. Review of the intermediary ís performance is done through judicious usage of quotas, sales goals, termination of contracts, non-renewals, restrictive supplier sources, expansion of networks by co-opting more intermediaries leading to encroachments in territories, etc.

Empowerment Strategies: This strategy is mostly used when the service principal is new, and the intermediary is a known player, financially strong and has local clout politically. The service firm thus becomes non-assertive, lacking the power to govern the channel through control strategies. A lot of autonomy and flexibility devolves on the intermediary with the belief that participation instead of plain acquiescence would bring out its talents. Empowerment of the intermediary is done by providing information, research and processes that will help them to perform better.

The intermediary may be too small a player to afford research studies, advertisements, etc. The service principal shares analyses of research studies with its intermediaries to make them get a better idea of the service background and trend. This knowledge will help them to improve their service process and service delivery. Life Insurance Corporation of India (LIC) shares with its agents/advisors the research data on the policy holders to enable them to sell policies effectively.

With information circulated, there will be some intermediaries who may not have any knowledge of implementation. The service principal then supports them in implementation through consulting, training, etc. The intermediaries might require systems support to enable them to deliver their service properly. The service principal then shares systems with the intermediaries. Airlines and also many hotels give support to travel agencies for ticketing through Computerized Reservation Systems (CRS).

Partnering Strategies: This approach is used when the service principal and the intermediary both are on an equal footing in the power equation. It seeks to synergize their skills and strengths, stressing the importance of trust and relationships. This strategy has the highest potential for being effective, and the stress is to learn as much as possible about the customers, improve service delivery, communicate effectively and build standards of excellence.

Partnering becomes most effective when there is successful goal alignment between the service principal and the intermediary. The service principal should take a proactive role in co-opting the intermediaries in a goal-stressing exercise and aligning them to one common goal. Partnering strategy also includes involving the intermediaries in the decision-making processes ranging from compensation, service quality and service environment to service delivery. Apart from directly entry, the service firm can expand its distribution network in both, domestic and the international market by:

Mergers and Acquisitions: it refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Promotions

Promotion is a tool that service marketers have used to great advantage in positioning their service, adding tangibility and value to their offer. Promotion is used only as a temporary tool and is communication oriented.

Promotion consists of the following major areas of marketing: advertising, public relations, sales promotion, personal selling, word of mouth and direct mail. These areas are called the promotion mix or the communication mix. The service marketer can use a blend of all of these to achieve his communication and other goals.

Developing Integrated Communication Program

The word communication is derived from the Latin word communication. Communication needs an objective that the service marketer must set and achieve. Following are the components of the communication programme:

Identify the target audience: Although this would have been done in the market segmentation process, a more detailed picture of the target audience would be required for specific promotions.

Determine the promotion objectives: Every communication has an objective and the success of the communication programme depends on how the marketer has been able to clearly perceive his objectives and integrate the components. The service marketer has three promotional goals: to inform, to persuade and to remind. Some of the objectives for a service marketer are:

- Reinforce positioning
- Develop brand image
- Make customers aware of the offer, its attributes and benefits

- Persuade customers to buy the offer
- Continually remind customers about the service through remembrance exercises.

Develop the message: There are many models for describing the customer responses. One of the simplest and widely used is the AIDA model, developed by E. K. Strong. The service communication has four choices in encoding: words, symbols, pictures and images.

Select the communication mix or the promotion blend: The communication could have either personal interaction (one-to-one) or impersonal messages (one-way).

Personal communication consists of personal selling (insurance advisors making a presentation to customers), word of mouth (publicity and public relations exercises for a restaurant or for a movie like Devdas), and interaction during service delivery (like inside a retail bank). Impersonal communication consists of mass communications like advertising in newspapers, TV, outdoor advertising, point of sale, leaflets and brochures, and the service environment or the Servicescapes itself.

Select the media vehicle: The media vehicle is selected by the effectiveness and efficiency with which it reaches the message to the target audience. The message also guides the media vehicle: if the message is personal, then mass media cannot be used. What becomes effective is letters (on paper or through e-mail), personal interaction, etc. This is where media analysis would be required for its audience profile and viewer reading or media habits.

Set up systems for feedback and feed forward: The communicator should undertake two important exercises to make his present and future messages effective:

Feed forward is a kind of pre-test undertaken before the message has been broadcast to ensure that the message will be received. Feedback is a kind of post-test undertaken after the message has been broadcast to ensure that the message was received. The issues of promotion blend like whether to use public relations more than advertising etc. have to be clarified by the service marketer. The decision is guided by the following factors for their differential impact ability on the communication mixes: The service is for profit or not-for-profit, Constraints of ethics exist in some services, like hospitals, healthcare and with doctors, and Competitive intensity is high or low.

The Elements of Communication Mix

As said earlier, the communication mix consists of advertising, public relations, sales promotion, personal selling, word-of-mouth and direct marketing.

Advertising

The word advertising is derived from the Latin word advertise, meaning to change the mood of the people. Indeed, advertising does resemble a mood elevator. It is one of the most important communication techniques of mass or impersonal communication. But it has very specific goals, too. Advertising goals are necessary not only to justify the advertising expenditure, but also to vindicate the art and science bases of advertising. Achievement of the goals would confirm the effectiveness of advertising as a communication tool.

Goals of Advertising

Awareness Goals

Advertising seeks to make consumers aware of the service offer, its benefits and the experience. The awareness could also be quantified and tangibly achieved by measuring it before and after the campaign. The advertiser seeks to increase the customers knowledge about the service offer and the messages are directed at the cognitive (having the ability to recognize) part of his brain. Advertising is used for positioning of the service offer in the minds of the consumers by effectively differentiating it from competition.

Behavioural Goals

Consumers have attitudes of favourable and unfavourable disposition towards brands and services. Advertising seeks to change the attitude of the consumers towards a favourable disposition.

Sales Goals

The advertiser might only need sales generation and can ask an advertising agency to devise a communication campaign to help generate sales. The problem with achieving this goal and claiming credit for this achievement is two-fold: The lagged effect that advertising has on sales. People do not go to buy the service synchronized with the advertising campaign; nor do they stop buying a service with the end of a campaign. Other marketing mixes like new products, distribution, pricing and packaging might contribute to sales. Advertising is solely dependent on media to carry its messages. Some popularly-used media are cinema, TV, newspapers, magazines, outdoor (hoardings or billboards), brochures, pamphlets, direct mail, telephone and posters.

Public Relations

Public relations can be defined as: It is the planned and sustained effort to establish and maintain goodwill between an organisation and its public. The publics constitute all those people and organisations that have a stake in the company. They include shareholders, employees, governments (local or central), opinion leaders of society, the media, customers (present and potential), financial institutions, suppliers, etc. Like most other communication programmes, public relations should also adhere to objective specifications, goal settings, deciding on the mix of PR activities and implementing them in an integrated way while evaluating results.

Public Relations vs. Advertising

A comparison between these two effective elements of the communication mix would be useful for the service marketer in determining their respective utility. Advertising is wholly dependent on the media to reach its target audience; PR does use the media but can also communicate without the latter (e.g., a dinner for opinion leaders). Advertising is a paid form of communication through the media; PR has no media cost - but incurs substantial PR costs like salaries of PR personnel, costs of hosting dinners or press conferences, etc. Advertising has total control on the content and exposure of its message; PR does not. As the media accepts payment for advertising, it has to print every part of the message and has to display it in the place and at the time desired; if the message has to be repeated ad nauseam, so will it be. The same is not the case with press releases arranged by PR. If a major story breaks, the press release could be relegated to the back pages or shelved for some other day when the message value might have lost its topical value. Advertising seeks to change opinions by changing awareness; PR seeks to change attitudes by changing opinions.

Tasks of PR

Maintaining or enhancing image; Supporting other communication activities like advertising, personal selling, direct mail, etc. Influencing publics; Reinforcing positioning; Spearheading certain events like Annual General Body Meetings (AGM), press conferences, etc. Bringing out annual reports, magazines and house journals; Troubleshooting.

Tools of an Effective PR Design

Publications in the form of press releases, house journals, posters, articles, annual reports, brochures, etc. Holding events like AGM, press conferences, seminars, conferences, conventions and congresses, etc. Investor relations programmes; Planting of stories to enhance media coverage;Conduct of trade shows, exhibitions; Sponsoring of social events, charities and community projects.

Sales Promotion

Sales promotions are incentives tools used to temporarily boost sales. They are targeted at three types of audiences:

Customers: When the service marketer is keen on improving on the flat sales graph, he can make the consumer interested in his offer by various schemes that have a short tenure. These are called consumer promotions:

Price-offs: The same offer, for example, of a health club or fitness centre ís service, is now available at a lower price.

Extra grammage: There is more amount of offer by weight and volume at the old price. This is possible in those services having higher tangibility as in restaurants, souvenir shops, general and food retailing, etc.

Freebies: These are free items bundled with the offer sale. They can be intra-brand.

Personal Selling

The high contact nature of services and the resultant interactions between service providers and customers make personal selling very effective and important as a communication tool. It is an effective tool of persuasion in those areas where the customer has difficulty in comprehending the service product (concept selling) and its benefits. Personal contacts are used to create customers and then to build long-term relationships and for customer retention. It is possible to personalize the communication according to the customer. This may not be possible in mass communication. After a sales call has been closed, personal selling can be used to sell other services. Personal selling can be made effective in the following seven ways:

Orchestration of the service purchase encounter: The service encounter is managed to create the maximum positive impression on the mind of the customer. This can be done in the following ways: Identify the needs and expectations of the customer: The insurance advisor should make a customer-need analysis and then present his insurance products. Too often, the advisor/agent insists on hard-selling certain policies for which he might get a higher commission and for which the policy-holder might realize too late that he has not much use. It is no surprise that insurance agents are perceived very low in the social ladder.

Usage of appropriate technical and presentation skills: The customer should be left with full comprehension of the offer and a lasting impression of offer benefits. Management of impressions: Visual, aural, touch-and-feel factors and activities can be used effectively to leave lasting impressions. Facilitation of quality assessment by the customer: Customers measure quality by their expectations and their perception of service delivery. The service provider should accordingly change his standard of measurement of service quality.

Word of Mouth

The service industry is very vulnerable to referral and word-of-mouth promotion and communication - due to its intangibility factor. Example: A satisfied customer will refer the services of a doctor to others while a dissatisfied diner will be negative about a restaurant and irate customers might resort to de- marketing of the particular offer, often unprompted.

There is a lot of research that bears out the effectiveness of personal recommendation through word of mouth. Services therefore benefit from the multiplier effect of positive recommendations - although negative experiences tend to be more damaging.

Module-III

Customer Relationship Management in Services

Introduction

Management is a broader concept than marketing, because it covers marketing management, manufacturing management, human resource management, service management, sales management, and research and development management. Thus, CRM requires organizational and business level approaches ñ which are customer-centric ñ for doing business rather than simply a marketing strategy. CRM involves all of the corporate functions (marketing, manufacturing, customer services, field sales and field service) required to contact customers directly or indirectly. The term touch point is used in CRM to refer to the many ways in which customers and firms interact.

CRM is a business strategy that goes beyond increasing transaction volume.Its objectives are to increase profitability, revenue, and customer satisfaction. To achieve CRM, a company-wide set of tools, technologies, and procedures promote the relationship with the customer to increase sales. Thus, CRM is primarily a strategic business and process issue rather than a technical issue. In this unit, you are going to learn various aspects of CRM of a service firm. In this unit, you will also be introduced to some of the CRM strategies used by service firms.

Customer Retention through Relationship Marketing

For a service firm, its marketing philosophy should be:

- To acquire customers
- To retain customers
- To do business with only profitable customers.

2 Benefits of a Successful Customer Retention Programme

1. Customer retention is cheaper than customer acquisition
2. Reduces communication costs for customer acquisitions like advertising and other promotions.

3. Loyal customers tend to do repeat purchase, reducing marketing costs but increasing revenues.
4. Loyal customers tend to avoid substitutes and other competition and perform repeat purchases even if the price of the service is more - increasing revenue and profit.
5. Repeat customers are less expensive to serve than first time customers, as they are well aware of the offer and do not require customer support, education, guidance and training.

Components of CRM

CRM consists of three discrete components:

- Customer,
- Relationship, and
- Management.

Customer

The customer is the only source of the company ís present profit and future growth. However, a good customer, who provides more profit with less resource, is always scarce because customers are knowledgeable and the competition is fierce. Sometimes it is difficult to distinguish who is the real customer because the buying decision is frequently a collaborative activity among participants of the decision-making process. Information technologies can provide the abilities to distinguish and manage customers. CRM can be thought of as a marketing approach that is based on customer information.

Relationship

The relationship between a company and its customers involves continuous bi-directional communication and interaction. The relationship can be short-term or long-term, continuous or discrete, and repeating or one-time. Relationship can be attitudinal or behavioural. Even though customers have a positive attitude towards the company and its products, their buying behaviour is highly situational. CRM involves managing this relationship so that it is profitable and mutually beneficial. Customer lifetime value (CLV) is a tool for measuring this relationship.

Management

CRM is not an activity only within a marketing department. Rather it involves continuous corporate change in culture and processes. The customer information collected is transformed into corporate knowledge that leads to activities that take advantage of the information and of market opportunities. CRM requires a comprehensive change in the organization and its people.

Steps of CRM

CRM extends itself from customer acquisition to customer retention to customer delight. The important steps are:

1. ***Identifying the Right Customer***: The key here is right customer segmentation. Many marketers have failed to realize that the old models and theories of segmentation have to be changed dramatically. The segmentation criteria need to change from conventional demographic/psychographic segmentation to need-based behavioural segmentation.

   This will lead to the right definition of the right target customer. This paradigm shift in segmentation criteria is needed because the conventional segmentation criteria are losing their relevance with the evolution of the customer. Consumer behavioural variables are more relevant and actionable and can help in the right targeting. Hence marketers can develop sustainable business models and can differentiate themselves from others by using high-level consumer behavioural variables.

2. ***Retaining the Right Customer:*** It is very important to measure customer profitability. ROC (return on customers) should be calculated on at least three dimensions: frequency of customer purchases, value per transaction and profitability.

   Customers who are low on all three dimensions need least focus, whereas customers scoring high on all the three need maximum focus. The customers lying between the two extremes need to be carefully analyzed to decide the degree of focus required for each of the segments.

   Marketers need to lay down systems and processes (which can be very simple formats and not necessarily require capital-intensive ERP systems) to keep track of these dimensions. Identification and sizing of these clusters can help develop the right strategies for each customer group.

3. ***Delighting the Customer***: Many marketers lose bottom-line focus in their efforts to please the customer and may inadvertently erode business profitability. Marketers need to develop strong value propositions in terms of better products and better services so that strategies are not only customer-centric but also lead to

high profitability. Pleasing the customers should not be at the cost of hurting the company is bottom line.

Customer Relationship Analytics

The Bottom Line of CRM: Know Your Customer

CRM itself is not a technology, but a process of gathering and retaining information about customers and their interactions with your company. CRM was practiced by businesses long before CRM technology came along.

Companies now rely on databases and automated tracking tools to track needs of customers. Operational and collaborative CRM covers the nuts and bolts of this process - interacting with customers, managing the process and sharing actions with various channels and trading partners. Analytical CRM integrates customer data coming in from various channels into a single system to provide a decision-making platform. Such channels include the various components of CRM systems - call centres, customer service automation, marketing automation and sales automation.

The new model focuses on an integrative approach with one single program that covers ERP functions, sales automation, service management and marketing automation capabilities rather than using individual systems as was done in the past.

Returns

Implementing CRM systems tends to be a complicated and expensive endeavour. While money is being spent on CRM initiatives, many companies have not been able to figure out what kind of return on investment they are getting with their systems, beyond anecdotal evidence. Add to this uncertainty the risk of failure of a CRM program, and you get an idea of the managerial trepidation involved in the process, till it starts manifesting tangible returns.

The problem is that almost half of all planned CRM implementations are based on technology initiatives alone, and fail to address metrics, behaviours and processes. While many of today ís database and CRM systems do a good job of capturing customer data, they can’t make the data meaningful or enhance customer relationships by themselves.

Bringing Knowledge into the Equation

Customer relationship analytics - sometimes also called analytical CRM - makes sense of the mounds of data collected in CRM systems, databases, and transactions. In many cases, if the data is available, no CRM system is even needed to develop a robust analysis of oneís customers. Customer relationship analytical tools can provide a 360-degree view of customers, helping a marketer understand what customers are telling him, who they are, what they need, and more importantly, what they may do in the future.

These systems enable fact-based decision-making based on hard data, rather than on anecdotal evidence.

Business Drivers

Customer-relationship analytics take on the role of a highly sophisticated marketing department. These tools identify your most valuable customers, group these customers based on purchasing behaviour and other attributes, and target them with promotions and sales efforts designed to increase customer loyalty and sales revenue. By understanding the relative value of each customer, you can then focus sales and marketing efforts on the most profitable segments. Customer relationship analytics can impact the companyís overall bottom line as well. Significantly, these successful CRM companies did not view CRM as an IT project relegated to a specific department. Rather, they viewed CRM as an enterprise-wide initiative. Most CRM implementations have been fragmented, implemented within departments without a cross- organizational perspective.

Customer-relationship analytics need to be shared at all levels across the organization. Inside and in the field, sales personnel could then see higher levels of qualified customers, lower costs of sales, and more sales closed. Marketing can then be able to track responses and predict results to particular promotions or campaigns among targeted customer segments. Customer-service staff would then be able to deliver higher levels of support and customer satisfaction.

Customer-Analysis Solutions

Customer-analysis solutions should allow companies to adopt a more customer-centric approach to doing business, through in-depth analysis and grouping of customers based on purchasing behaviour, future marketing opportunities and customer service levels. Customer Relationship Analytics (CRA) should enable companies to ensure that their most profitable customers remain satisfied and that sales and marketing efforts are aimed at retaining good customers and attracting the right prospects.

Customer-Relationship Analytics should include several analytical views addressing the areas of:

- ***Customer value assessment*,** for examining, customer and channelñvalue from multiple perspectives, such as lifetime sales, gross margin contribution, and by factors that affect profitability such as discounts, freight and handling, and average selling price.

  By understanding the relative value of each customer, companies can begin to focus sales and marketing efforts on the most profitable customers and those with the most profit potential.

With this, businesses can apply specialized metrics to segment customers and then build specific promotions or sales efforts around select customer-groups.

- **Customer management,** for understanding the impact of order fulfilment, returns and call- centre activity on actual sales performance. This will allow companies to review year-to- date sales and revenue and problems reported by customers to identify correlations and better understand how customer service issues are impacting profits.

Additionally, analytics could also be used to measure:

- Sales Performance Management;
- Marketing Performance Management;
- Manufacturing Performance Management;
- Procurement Performance Management;
- e-Business Performance Management;
- Customer Relationships and
- Activity Cost Management.

Technology Drivers

A formal CRM technology solution is not required to implement a customer-relationship analytics program. What is required is some level of integration between customer-facing applications ñ such as call-centre or Web systems ñ and back-end systems. Front office systems providing data pertaining to customer transactions and inquiries can be matched up with back- end financial systems that have records of customer credit and invoices. In addition, many companies already have components of CRM systems, such as sales automation systems that record customer-contact information. Data can come from a variety of sources ó call centres, point of sale transactions, Web click stream data, back-end databases, and even faxes and phone records. Data from these channels is integrated into a customer-oriented data mart or data warehouse, a knowledge base that continuously captures customer data. While some integrated CRM solutions do provide this capability, companies still need the tools that will take this composite data and paint a picture about their customers.

A customer-relationship analytics system is a set of tools that are run against this data to perform business intelligence functions ó reporting, analysis and data mining. Such tools can help marketers visualize, through online graphics, patterns and relationships in customer behaviour and trends. A number of variables can be measured through this data analysis engine, including net profitability, return patterns, and order-fill rates.

The Importance of Customer-Relationship Analytics

Customer-relationship analytics is part of a growing effort to apply measurable and actionable analytics to key parts of the business. Business performance management applications now cover a range of key performance indicators, including sales, marketing, finance and manufacturing. The ability to apply analytics to customer relationship management opens up opportunities to dramatically improve these relationships. In today ís highly competitive environment, businesses need to better understand their customers, which ones are the most profitable, and how to best retain those customers. Though companies are investing millions of dollars in CRM systems, they are only generating data and failing to tell the company what the data means.

Customer-relationship analytics helps companies make sense of customer needs, help companies manage these relationships more intelligently and help predict the future. Such knowledge provides a crucial competitive differentiation for companies seeking to gain market share and reduce operational costs.

Understanding and Managing Customers

By making the consumer participate in the service delivery process, the service firm harvests both benefits and challenges. The firm benefits from shared cost effect, and is able to make do with lesser service personnel. Additionally, customer participation makes him more responsible to the importance of the transaction, generating empathy. Technology has definitely been a boon for service marketers. It has enabled them to not only extend their market reach but also effectively persuade the customers to increase their participation in the service delivery process. One can imagine the reaction of the customers if a service provider like a bank manager asked them to help themselves to self-service. Technology, as an intermediary, has been the hidden persuader. Some examples of self-service enabled with technology usages are:

- E-commerce, especially Internet based shopping which includes merchandise browsing and payments (Rediff shopping, amazon.com)
- Automated filing of income tax and other legal claims
- Railway and airline reservations also known as ëe-Ticketsí (irctc.com)
- Online trading and reconciliation (Indiabulls)
- E-auction participation and payments (e-Bay)
- ATMs
- Distance education (Direcway)
- Tracking of packages (DHL/AFL)
- Tracking of bank accounts and transactions (icicidirect.com)
- Internet information search (Google and other search engines)
- Interactive voice response systems

Higher Customer Participation

The ulterior motive of the service marketer to get customer participation is to increase productivity, efficiency, and customer satisfaction. Simultaneously, the goal is to reduce costs and uncertainty that comes from unpredictable customer behaviour. The service marketer can adopt the following strategies to make the customer come forward and participate more in the service delivery process.

Clear-cut Definition of Customer Jobs

The customer is participation begins with the inseparability concept, that is, his presence - in entertainment like a theatre play; a boat ride; in a hospital for treatment, etc. A higher degree of participation comes in the form of volunteering information (tax consulting, health check-up, counseling and psychiatric treatments, etc.). Maximum participation comes in the form of customers co-producing the service, often carrying out the instructions and suggestions (recommendations) of the service provider to achieve the desired goal.

Customer Acquisition, Education and Training and Appreciation

Customers should be recruited with clear-cut role enunciation, and their confirmation of the same. They can then be trained with instructions on what their ëscriptí and action should be. Before the flight, air stewards give a mime performance to airline passengers about safety devices, precautions and contingency actions to be taken. Customer handbooks and instruction booklets or service literature, also go a long way in customers educating and preparing them well about and their roles in the service process delivery. Service firms can then reward customers through the right responses, through incentives, time-savings, thereby achieving better control on the service process.

e-CRM

The **e-CRM** or **electronic customer relationship management** coined by Oscar Gomes encompasses all standard CRM functions with the use of the net environment i.e., intranet, extranet and internet. Electronic CRM concerns all forms of managing relationships with customers through the use of information technology (IT). e-CRM processes include data collection, data aggregation, and customer interaction. Compared to traditional CRM, the integrated information for e-CRM intra-organizational collaboration can be more efficient to communicate with customers.

From RM to CRM

The concept of relationship marketing (RM) was established by marketing professor Leonard Berry in 1983. He considered it to consist of attracting, maintaining and enhancing customer relationships within organizations. In the years that followed, companies were engaging more and more in a meaningful dialogue with individual customers. In doing so, new organizational forms as well as technologies were used, eventually resulting in what we know as customer relationship management. The main difference between CRM and e-CRM is that the first does not acknowledge the use of technology, where the latter uses information technology (IT) in implementing RM strategies.

The essence of CRM

The exact meaning of CRM is still subject of heavy discussions. However, the overall goal can be seen as effectively managing differentiated relationships with all customers and communicating with them on an individual basis. Underlying thought is that companies realize that they can supercharge profits by acknowledging that different groups of customers vary widely in their behavior, desires, and responsiveness to marketing. Loyal customers can not only give operational companies sustained revenue but also advertise for new marketers. To reinforce the reliance of customers and create additional customer sources, firms utilize CRM to maintain the relationship as the general two categories B2B (business-to-business) and B2C (business-to-customer or business-to-consumer). Because of the needs and behaviors are different between B2B and B2C, the implementation of CRM should come from respective viewpoints.

Differences from CRM

Major differences between CRM and eCRM:

Customer contacts

- CRM – Contact with customer made through the retail store, phone, and fax.
- eCRM – All of the traditional methods are used in addition to Internet, email, wireless, and PDA technologies.

System interface

- CRM – Implements the use of ERP systems, emphasis is on the back-end.
- eCRM – Geared more toward front end, which interacts with the back-end through use of ERP systems, data warehouses, and data marts.

System overhead (client computers)

- CRM – The client must download various applications to view the web-enabled applications. They would have to be rewritten for different platform.
- eCRM – Does not have these requirements because the client uses the browser.

Customization and personalization of information

- CRM – Views differ based on the audience, and personalized views are not available. Individual personalization requires program changes.
- eCRM – Personalized individual views based on purchase history and preferences. Individual has ability to customize view.

System focus

- CRM – System (created for internal use) designed based on job function and products. Web applications designed for a single department or business unit.
- eCRM – System (created for external use) designed based on customer needs. Web application designed for enterprise-wide use.

System maintenance and modification

- CRM – More time involved in implementation and maintenance is more expensive because the system exists at different locations and on various servers.
- eCRM – Reduction in time and cost. Implementation and maintenance can take place at one location and on one server.

eCRM function

As the Internet is becoming more and more important in business life, many companies consider it as an opportunity to reduce customer-service costs, tighten customer relationships and most important, further personalize marketing messages and enable mass customization. ECRM is being adopted by companies because it increases customer loyalty and customer retention by improving customer satisfaction, one of the objectives of e-CRM. E-loyalty results in long-term profits for online retailers because they incur less costs of recruiting new customers, plus they have an increase in customer retention. Together with the creation of sales force automation (SFA), where electronic methods were used to gather data and analyze customer information, the trend of the upcoming Internet can be seen as the foundation of what we know as eCRM today. (Nenad Jukic et al., 2003)

As we implement e-CRM process, there are three steps life cycle:

1. Data collection: About customers preference information for actively (answer knowledge) and passively (surfing record) ways via website, email, questionnaire.
2. Data aggregation: Filter and analysis for firm's specific needs to fulfill their customers.
3. Customer interaction: According to customer's need, company provide the proper feedback to them.

e-CRM can be defined as activities to manage customer relationships by using the Internet, web browsers or other electronic touch points. The challenge hereby is to offer communication and information on the right topic, in the right amount, and at the right time that fits the customer's specific needs.

Strategy components

When enterprises integrate their customer information, there are three eCRM strategy components:

1. Operational: Because of sharing information, the processes in business should make customer's need as first and seamlessly implement. This avoids multiple times to bother customers and redundant process.
2. Analytical: Analysis helps company maintain a long-term relationship with customers.
3. Collaborative: Due to improved communication technology, different departments in company implement (intraorganizational) or work with business partners (interorganizational) more efficiently by sharing information. (Nenad Jukic et al., 2003)

Implementing and integrating

Non-electronic solution

Several CRM software packages exist that can help companies in deploying CRM activities. Besides choosing one of these packages, companies can also choose to design and build their own solutions. In order to implement CRM in an effective way, one needs to consider the following factors:

- Create a customer-focused culture in the organization.
- Adopt customer-based managers to assess satisfaction.
- Develop an end-to-end process to serve customers.

- Recommend questions to be asked to help a customer solve a problem.
- Track all aspects of selling to customers, as well as prospects.

Furthermore, CRM solutions are more effective once they are being implemented in other information systems used by the company. Examples are transaction processing system (TPS) to process data real-time, which can then be sent to the sales and finance departments in order to recalculate inventory and financial position quick and accurately. Once this information is transferred back to the CRM software and services it could prevent customers from placing an order in the belief that an item is in stock while it is not.

Cloud solution

Today, more and more enterprise CRM systems move to cloud computing solution, "*up from 8 percent of the CRM market in 2005 to 20 percent of the market in 2008, according to Gartner*".[15] Moving managing system into cloud, companies can cost efficiently as pay-per-use on manage, maintain, and upgrade etc. system and connect with their customers streamlined in the cloud. In cloud based CRM system, transaction can be recorded via CRM database immediately.[

Some enterprise CRM in cloud systems are web-based customers don't need to install an additional interface and the activities with businesses can be updated real-time. People may communicate on mobile devices to get the efficient services. Furthermore, customer/case experience and the interaction feedbacks are another way of CRM collaboration and integration information in corporate organization to improve businesses' services.

There are multifarious cloud CRM services for enterprise to use and here are some hints to the your right CRM system:

1. Assess your company's needs: some of enterprise CRM systems are featured
2. Take advantage of free trials: comparison and familiarization each of the optional.
3. Do the math: estimate the customer strategy for company budget.
4. Consider mobile options: some system like Salesforce.com can be combined with other mobile device application.
5. Ask about security: consider whether the cloud CRM solution provides as much protection as your own system.
6. Make sure the sales team is on board: as the frontline of enterprise, the launched CRM system should be the help for sales.
7. Know your exit strategy: understand the exit mechanism to keep flexibility.

Service failure and recovery

Today businesses all over the world use social media to grow and improve their services. When Samsung's Galaxy Note smart phones caught fire, they explained the problem on all social platforms. They apologized, and they replaced the phones. When it comes down to it, customers just want to know they can trust a brand to make it right. In the contrary, they are also vulnerable for criticism. In the recent case of United Airlines, the flight was overbooked by one person, and that person was forcefully removed from the aircraft. This incident went viral over a short period of time, and the image of the airlines had taken a hit. Failures can go viral in a matter of a few hours leading to criticism and a negative image of the company. Service failure refers to not being able to perform the service that a company has promised, and service recovery refers to compensating and recovering the damage that has been done.

Sometimes customer service fails because of doing something, at other times because of not doing anything. A service failure, simply defined, is service performance that fails to meet a customer's expectations. Typically, when a service failure occurs, a customer will expect to be compensated for the inconvenience in the form of any combination of refunds, credits, discounts, or apologies. Service failure is the opposite of customer satisfaction. Service failure can range from bad quality to rude behavior to late delivery. These examples all result in the customer not receiving the performance that they were promised. Everyone faces service failure now and then. One of the service failures that I experienced was at a restaurant when I had ordered a dish, and I found a long hair in it. When I notified our server, he took back the dish, added some more food in it, and presented it to me. But the hair was still there! Since then I never went back to that restaurant. And that's what customers do when their service failure is not handled properly.

The major reasons for service failures include strategy of the management, leadership quality of managers, and natural instincts of employees.

- Strategy of the management: Management should be able to plan and strategize company policies and operations so that every aspect of the business is well-organized to reduce the chances of service failure.
- Leadership quality of managers: Managers should be able to apply their leadership skills in motivating, supervising, and correcting the operations and actions in the organization to ensure higher customer satisfaction and minimum service failure.
- Natural instincts of employees: A large part of service relies on the employees as they are the one to provide service and interact with the customers. The behavior of leadership and management towards employees is often incongruent with the customer service initiative. Thus, employees must be well-skilled and trained to work efficiently and effectively.

Service failure is a very common scenario, but recovering from such failures is one of the most challenging tasks that management faces. There is always a hidden opportunity in a service failure, it just depends on the management whether it worsens or can set an example of recovery. In the video shared below, Mr. Jon Picoult and his wife faced service failure at a Ritz-Carlton Hotel, but the hotel manager had done a great service recovery which developed a more loyal customer. In this case, the situation was cleanly handled by the manager of the hotel, which boosted the image of the hotel. Also, good word-of-mouth was communicated, and the service recovery has now become one of the best service recoveries in the world.

Service recovery

For every service failure there are 4 steps of service recovery, and they are:

Step 1: Apologize and Ask for Forgiveness: After a service failure, listen to the customers and don't interrupt. Apologize for the failure in a genuine and sincere tone. Also, provide them with the full information regarding the cause of the service failure.

Step 2: Go Over the Complaint with Your Customer: Always go through the complaint as you might be missing something. This also helps us to actually understand who's at fault because sometimes the customers may also be wrong or may give false complaint. We can also locate the expectations of the customers after the failure has occurred.

Step 3: Fix the Problem and Then Follow Up: In the third step of service recovery, try to fix the problem with the best alternative and follow-up with the customer. In the case of Southwest Airlines, a man had paid $8 for the Wi-Fi services in the flight but didn't get the service. Later, the amount was refunded by the airline, and this helped to develop a loyal customer for Southwest Airlines.

Step 4: Document the Problem in Detail: The last step of service recovery is recording the complaints and problems and training the staff members for similar problems that may occur in the future. The only way to prevent serious problems from recurring is to document the problem for careful analysis later.

Not every service failure can lead to greater service recovery. It is in the hands of a management or a manager on how he or she can handle the situation. Quick thinking and empathy will help to handle the failure and have a good connection with the customers. In a service market, not receiving complaints doesn't mean that the service is great because most of the customers don't complain, and that is how you lose customers. But service failure and service recovery help to develop a better customer relationship and increase customer loyalty as they feel they are being heard.

Financial services

Financial services is **a broad range of more specific activities such as banking, investing, and insurance**. Financial services are limited to the activity of financial services firms and their professionals, while financial products are the actual goods, accounts, or investments they provide.

What are the three basic financial services?

The finance field includes three main subcategories: **personal finance, corporate finance, and public (government) finance**. Financial services are the processes by which consumers and businesses acquire financial goods. The financial services sector is a primary driver of a nation's economy.

Following are some of the examples of financial services:

- Mutual Fund management
- Leasing, credit card services, factoring, portfolio management and financial consultancy services
- Underwriting, discounting and rediscounting of bills
- Acceptances, brokerage and stock holding
- Depository services, housing finance and book building
- Hire purchases and instalment credit
- Insurance
- Financial and performance guarantees
- Loan syndicating and credit rating

Characteristics of Financial Services

- **Customer-centric:** Financial services are usually customer focused. Financial Services are provided, depending on the need of customer for example, leasing finance service may be needed by an industrial customer, while merchant banker's services may be needed by a company issuing new equity share in the market.

  Financial services firms like other service firms continuously remain in touch with their customers, so that they can design products which can cater to the specific needs of their customers.

- **Intangibility**: Financial services are intangible in nature. In a highly competitive global environment, brand image is very important. Unless the financial institutions providing financial products and services have good image, enjoying the confidence of their clients, they may not be successful.
- **Concomitant**: Production of financial services and delivery of these services have to be concomitant. Both these functions i.e. production of new and innovative financial services and supplying of these services are to be performed simultaneously.

- **Perishable in nature:** Like other services, financial services also require a match between demand and supply. Services cannot be stored. They have to be supplied when customers need them.

- **Dominance of human element:** Financial services are dominated by human element. Thus, financial services are labour intensive. It requires competent and skilled personnel to market the quality financial products.

- **Advisory:** Financial services can be of three types i.e. a fund based or a fee-based or both. In case of fee-based services, the advisory function is dominant. Issue management, registrar of issue, merchant banking, pricing of securities etc. are few examples of advisory financial services.
- **Heterogeneity**: Financial services are customized services. It cannot be uniform for all clients. Financial services vary from one client to other. Institutional client requirements differ from individual client. After analysing the needs of the clients, financial institutions offer customised financial services to the clients.

- **Information based**: Financial service industry is an information based industry. It involves creation, dissemination and use of information. Information is an essential component in the production of financial services.

Functions of Financial Services

- **Mobilization of funds**: A financial service helps in mobilizing fund from investors, individual, institutions and corporate entities. These funds are mobilized through different financial instruments like equity shares, bonds, mutual funds etc.

- **Effective utilization of funds**: These financial services also help in effective utilization of mobilized funds. Financial services helps in this regard through services like factoring, securitization, credit rating etc. Services of Credit Rating Company enables investors to make wise and informed decisions related to investment. Similarly merchant banking services helps companies in mergers and acquisitions.

- **Transforming risk**: Financial services like insurance helps in reduction of risk by transferring risk to those who are more willing to bear it.

- **Enhancement of economic development**: A financial service helps in economic development of the country by mobilization and deployment of funds. Ideal savings of individuals are channelized into productive investment through financial services.

- **Provision of liquidity:** The financial service industry promotes liquidity in the financial system by allocating and reallocating savings and investment into various avenues of economic activity. It facilitates easy conversion of financial assets into liquid cash.

- **Creation of employment opportunities**: The financial service industry creates and provides employment opportunities to millions of people all over the world.

Classification of Financial Services

he term "financial services" refers to an assortment of institutions that provide the means for people to save for the future, hedge against risks, acquire capital for consumption and organize capital for investment.

Financial services cover wide range of activities like fund raising, funds deployment, credit rating, underwriting, merchant banking, depository, mutual fund, book building etc.

Financial services can be broadly classified as:

Traditional Financial Services

It includes services rendered for both money and capital market, which can be

Fund Based Services

In fund-based services the firm raises funds through debt, equity, deposits and the bank invests the funds in securities or lends to those who are in need of capital. Fund based Services are the activities which come under the following:

- Primary market activities
- Secondary market activities
- Foreign exchange market activities
- Specialized financial services activities
- Financial engineering activities.

The important fund based services include:

- Equipment Leasing / Finance
- Hire Purchase and Consumer Credit
- Bill Discounting
- Venture Capital
- Housing Finance
- Insurance Services
- Factoring etc.

Fee Based Services

Fee based financial services are those services wherein financial institutions operate in specialized fields to earn a substantial income in the form of fees or dividends or brokerage on operations. The major fee based financial services are as follow:

- Managing Capital Issues according to SEBI guidelines
- Making arrangements of funds from financial institutions to meet the project cost and working capital
- Making arrangements for the placement of capital and debt instruments with investment institutions
- Assisting in the process of getting all government and legislative clearances.· Managing the portfolio

The fee based/advisory services include:

- Issue Management

- Portfolio Management
- Corporate Counseling
- Loan Syndication
- Merger and Acquisition
- Capital Restructuring
- Credit Rating
- Stock broking etc.

Modern financial services

Modern financial services include innumerable activities like:

1. Rendering project advisory services.
2. Planning for mergers and acquisitions.
3. Guiding corporate customers in capital restructuring.
4. Acting as Trustees to Debenture holders.
5. Recommending suitable changes in financial structure.
6. Structuring the financial collaboration through joint ventures
7. Rehabilitating and reconstructing sick companies through reconstruction.
8. Hedging of risks through derivative trading.
9. Managing portfolio of public sector corporations.
10. Asset liability management.
11. Undertaking risk management services through insurance.
12. Advising clients for selecting the best source of funds.

Challenges to Indian Financial Service Sector

Financial service in India is industry characterized by increasingly vibrant public and private-sector institutions. A large number of banks and non-banking finance companies (NBFC) are providing a variety of financial services to both individual and institutional clients.

Therefore, the financial service industry will be facing a new, demanding competitive map, which will create challenges for financial service providers in India.

Angel Cano (2010) has identified following challenges to financial service industry in India:

- **Markets are segmented in unconventional ways**: The classical financial services segments are affinities such as chartered accountants, Independent Financial Analysts or insurance agents. These are not the most effective groupings in India because the linkages between communities, localities and religious sects are often stronger than those between occupations.

- **Changes in society and relationship patterns**: Deep changes in consumer preferences will determine how financial institutions reach out to their customers and relate to them. This will mean evolving towards a more efficient, more productive distribution model.

- **The talent pool is shallow and itinerant**: Most financial services businesses require high quality, intelligent people. These are hard to find and already work in high paying multinationals. It is common to have 100% attrition which means that the sales force gets replaced each year. In such circumstances how can o

- **Tougher regulatory and oversight standards** will materialize as increased capital, liquidity and provisioning requirements and more stringent consumer protection. The main consequence will be greater pressure on banks' returns, forcing them to being more selective in allocating scarce resources, in particular, capital, which will become increasingly scarce.