Banking and Insurance Marketing

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DIRECTORATE OF DISTANCE & CONTINUING EDUCATION
Utkal University, Bhubaneswar-7, Odisha
Email: helpline@ddceutkal.ac.in
Website: www.ddceutkal.ac.in

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ABOUT THE UNIVERSITY

Founded in 1943, Utkal University is the 17th University of the country and the first of Odisha. It is the result of the efforts of Pandit Nilakantha Dash. Maharaja Krushna Chandra Gajapati, Pandit Godavarish Mishra and many others who envisioned a progressive education system for modern Odisha.

The University started functioning on 27 November 1943, at Ravenshaw College, Cuttack. It originated as an affiliating and examining body but shifted to its present campus spread over 400 acres of land at Vanivihar in Bhubaneswar, in 1962.

A number of Postgraduate Departments and other centres were established in the University campus. There are presently more than two hundred general affiliated colleges under the University. It has eleven autonomous colleges under its jurisdiction, twenty-eight constituent postgraduate departments, 2 constituent law colleges and a Directorate of Distance & Continuing Education. It boasts of a centre for Population Studies, a School of Women's Studies, an Academic Staff College, a pre-school and a high school. The University also offers a number of self-financing courses.

NAAC accredited since 2003, with B++ status and a score little over 80%. Utkal University is recognized by the UGC. It is a member of the Indian Association of Universities and the Commonwealth Association of Universities.

BANKING AND INSURANCE MARKETING

CONTENTS

UNIT 1: INTRODUCTION TO MARKETING

Structure

1.0 AIMS AND OBJECTIVES

After going through this unit, you will be able to:

- Understand the meaning and scope of marketing
- Know the modern concepts of marketing
- Understand the market strategy and the STP approach
- Understand difference between goods and services marketing

1.1 INTRODUCTION

Marketing is one of the key functions of Management. It brings success to business organisations. A business organisation performs two key functions: (a) producing goods and services and (b) making them available to the potential customers for use. An organisation's business success largely depends on how efficiently the products and services are delivered to the customers, and how differently do the customers perceive the difference in delivery in comparison

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to the competitors. This is true of all firms from large business enterprises to small firms, from multinational operating in different countries to small firms operating in a small market and from giant enterprises like Sony, Lever, General Motors to the next door kirana shop. Quality production and efficient marketing are the key success factors in building sustainable competitive advantage for every business corporation.

1.2 MEANING OF MARKETING

Marketing is a process in a social system by which the demand pattern for product and services can be anticipated, enlarged, created and satisfied through the conception, production, promotion and physical distribution of goods and services in an exchange process,

The American Marketing Association defines marketing as:

"Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders."

Philip Kotler says, "Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others."

Pride and Ferrell's definition says, "We define marketing as the process of creating, distributing, promoting, and pricing goods, services and ideas to facilitate exchange relationships in a dynamic environment."

"Marketing is a total system of business activities designed to plan, price, promote, and distribute want-satisfying products to target markets to achieve organisational objectives."

(William J. Stanton, Michael J.Etzel, and Bruce J. Walker,Fundamentals of Marketing, McGraw-Hill, 1994.)

"It (marketing) is the whole business seen from the point of view of its final result, that is, from the customer's point of view."(Peter F. Drucker, Practice of Management (1954).

The essence of all these definitions of marketing is satisfying customer needs and wants. Apparently, these core objectives sounds simple, but it is not. Research shows that in many cases customers either has inhibitions about revealing their real needs or wants by intent or may not really know themselves. It is believed that the subconscious is the real storehouse of deep-rooted motives. To the extent possible, marketers undertake consumer research and try to learn about the target customers' needs and wants, and design appropriate marketing programmes to satisfy target customers.

Keeping in view the definitions of marketing some important aspects of modern marketing can be distinguished:

1. Marketing is a societal process.
2. Marketing deals with customer needs, wants, products, pricing, distribution, and promotion.
3. Marketing focuses on delivering value and satisfaction to customers through products, services, ideas, etc.
4. Marketing facilitates satisfying exchange relationships.
5. Marketing takes place in a dynamic environment.
6. Marketing is used in both for-profit and not-for-profit organisations.
7. Marketing is extremely important to businesses and the economy of a country,

1.2.1 Difference between Selling and Marketing

The old sense of making a sale is telling and selling, but in new sense it is satisfying customer needs. Selling occurs only after a product is produced. By contrast, marketing starts long before a company has a product. Marketing is the homework that managers undertake to assess needs, measure their extent and intensity, and determine whether a profitable opportunity exists. Marketing continues throughout the product's life, trying to find new customers and keep current customers by improving product appeal and performance, learning from product sales results, and managing repeat performance. Thus **selling and advertising are only part of a larger marketing mix**-a set of marketing tools that work together to affect the marketplace.

1.2.2 Nature of Marketing

(i) Marketing is both consumer- oriented and competitors oriented.

(ii) It starts with consumers and ends at consumers by satisfying their needs.

(iii) Marketing is an integrated process which is based on strategies and models.

(iv) The long-term objective of marketing is profit maximisation through customer satisfaction.

(v) Marketing is an integrated process which is based on strategies and models.

(vi) Marketing must deliver goods and services in exchange of money.

1.2.3 Process of Marketing:

The marketing process involves ***five* steps**: The first four steps create value for customers and build strong customer relationships in order to capture value from customers in return.

Stage–1: Marketers must assess and understand the marketplace and customers needs and demands.

Stage–2: Marketers design a customer driven marketing strategy with the goal of getting, keeping and growing target customers. This stage includes market segmentation, targeting and position.

Stage–3: This step involves designing a marketing program that actually delivers the superior value. This step includes designing products and services, pricing the product, distribution and finally promoting the product.

Stage–4: The first three steps provide the basis for the fourth step that is building profitable customer relationships and creating customer satisfaction.

Stage–5: And finally, the company reaps the reward of strong customer relationship and satisfaction by capturing value from customers.

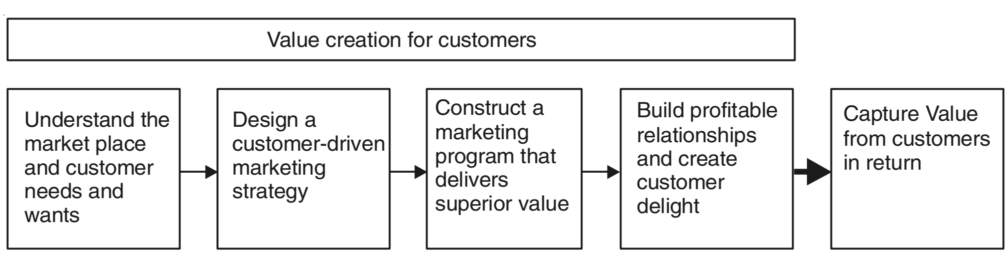

Fig. 1: Marketing Process

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1.2.4 Marketing Tasks

According to market experts John Evans & Berry Bergmen- there are nine functions of marketing. These are:

1. Customer analysis
2. Buying supplies
3. Selling products and services
4. Product and service planning
5. Pricing
6. Distribution
7. Marketing research
8. Opportunity analysis
9. Social responsibility.

1.3 SCOPE OF MARKETING

With the opening up of the Indian economy, we are beginning to taste the fruits of globalisation. As already stated above, the phenomenon of change is nothing new. Everything changes with the passage of time. There is a saying, "whatever fails to change, fails to survive." Therefore, with the opening up of our economy, and with globalisation as the reality, the marketing scenario in India has changed rapidly and businesses are becoming increasingly proactive in anticipating rapidly occurring changes in the larger environment. The most significant element that has influenced the vast global changes is the rapid advance in the fields of science and technology.

Developments in the field of electronics, computer technology, and telecommunications in the larger environment are nothing if not stupendous. With messages being transmitted almost at the speed of light, the Internet has shrunk time and distance. These developments have led to the availability of high-tech products, higher product quality shorter product life cycles, intensified competition, and businesses that are not in step with these changes are hard put to survive.

The scope of private sector in India has been broadened and out of the 17 reserved industries for public sector, nearly 75% have been handed over to the private sector. Foreign Direct Investment (FDI) in many sectors is open and is likely to be extended in other sectors gradually. The Indian businesses will be exposed increasingly to technological advances, globalisation, and deregulations. All these factors will affect the business prospects and practices of the individual companies and the life of individuals.

The advantage of technological superiority is disappearing fast and companies introducing superior products get very little time to enjoy this advantage before other competitors achieve parity or introduce even better products. Business Process Outsourcing (BPO) is wiping out the cost advantage due to the availability of cheap labour for many Indian companies against their foreign competitors.

The digital developments have put at the disposal of consumers and marketers some important capabilities. Customers can quickly compare the features and prices of almost all the competing brands sitting in their homes and connected with Internet. Some sites, such as Priceline.com allow customers to specify the price they wish to pay for airline tickets or hotel accommodation and find out if there are any willing sellers.

A customer can order almost anything in developed economies and some of the Indian companies too, have started accepting orders and payments online, Indian Railways have started the facility of ticket reservation online (IRCTC.CO,IN), Many online stores such as Amazon.com, Fabmart.com, and firstandsecond.com sell books and a large number of other items online.

The Internet has opened the doors to unlimited information about practically anything. this information can be accessed from anywhere in the world, An individual with an Internet connection can access online newspapers, dictionaries, encyclopaedias, medical information, business magazines, and any other information from countless information sources around the world.

Customers can access chat rooms according to their area of interest and can freely exchange bundles of information, evaluation, and opinions. An important feature of all these aspects discussed in these paragraphs is that these facilities are available seven days a week, eliminating any waiting time.

The management thinking and practices in India have undergone a desirable change and businesses are intelligently adjusting and changing their business practices and strategies to suit the current and emerging set of business needs and requirements according to the times.

Marketing practices have evolved gradually over an extremely long period of time. In the sense that marketing is defined, it has been around since ancient times. In those earliest days, human beings learned to exchange things they needed with others. It can be assumed that the outcome of such exchanges was satisfying for concerned parties. Marketing as a discipline of study is relatively quite new. However, the purpose of exchanges then and now is the same-to satisfy needs and wants.

Pre-industrial era economy was based on agriculture and handicrafts everywhere in the world. There was no need to have any elaborate systems of distribution because whatever was produced through agriculture or crafted by artisans would have been conceivably very meagre compared to modern standards and whatever surplus was produced was consumed within very limited neighbourhood areas. Before the money economy, barter was the only means to affect exchanges in which both parties were buyers and sellers at the same time. Not that there is no barter any longer. barter is still practiced, sometimes even between nations.

1.3.1 Core Concepts of marketing

A. Needs, Wants and Demands

The successful marketer will try to understand the target market's needs, wants, and demands.

Needs: The most basic concept of marketing is the human needs. Human needs are states of felt deprivation. Human needs can be physical needs (Hunger, thirst, shelter etc) social needs (belongingness and affection) and individual needs (knowledge and self-expression).

There are five types of needs. These are:

- Stated need (Minimum price)
- Real need (Psychological price)
- Unstated need (Service for post purchase)
- Delighted need (Supplementary-Gift)
- Secret need (Show up, gesture).

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Wants: It is the form of human needs shaped by culture and individual personality. Needs become wants when they are directed to specific objects that might satisfy the need. For example, An American needs food but wants hamburger, French fries and soft drink but a British wants fish, chicken, chips and soft drinks. So, it differs.

Demands: Wants become demand when backed by purchasing power. Consumers view products as bundles of benefits and choose product that add up to the most satisfaction. Demand comprises of three steps first, desire to acquire something, second, willingness to pay for it, and third, ability to pay for it. Many people want a Mercedes; only a few are able and willing to buy one. Companies must measure not only how many people want their product, but also how many would actually be willing and able to buy it. However, marketers do not create needs; Needs preexist marketers. Marketers, along with other societal influences, influence wants. Marketers might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

B. Product or Offering and Value Proposition

People satisfy their needs and wants with products. A *product* is any offering that can satisfy a need or want, such as one of the 10 basic offerings of goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

By an offering customer get the value proposition to use or consume the deliver product or services. So **Value proposition** is the set of benefits or values it promises to deliver to customers to satisfy their needs. It is actually the answer of customer's question: 'Why should I buy your product?'

C. Value and Satisfaction

Value can be defined as a ratio between what the customers get and what they give in return. The customers gets benefit and assumes costs. Value = Benefits / Costs. Marketers' concern should be to raise the value in the minds of the customers. When value of the products or services is high, customers are willing to pay more for the products. Thus;

$$\text{Value} = \frac{\text{Functional Benefit} + \text{Emotional Benefit}}{\text{Monetary costs} + \text{Time costs} + \text{Energy costs} + \text{Psychic costs}}$$

Customer satisfaction is the extent to which a product's perceived performance matches a buyer's expectation. If performance matches expectation level, the customer becomes satisfied but if the product's performance falls short of expectations, the customer will be dissatisfied. If performance exceeds expectation, the customer will be highly satisfied or delighted.

D. Exchanges and Transactions

Exchange: Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is defined as the act of obtaining a desired object from someone by offering something in return. For exchange potential to exist, five conditions must be satisfied:

- There are at least two parties
- Each party has something that might be of value to the other party
- Each party is capable of communication and delivery
- Each party is free to accept or reject the exchange offer
- Each party believes it is appropriate or desirable to deal with the other party.

Transaction: If exchange is the core concept of marketing, transaction is the marketing's unit of measurement. Two parties are engaged in exchange if they are negotiating- trying to arrive at mutually agreeable terms. When an agreement is reached, we say the transaction takes place. Thus, a **transaction** is a trade of values between two or more parties. When the exchange is made, it results into transaction. A transaction involves several dimensions:

- at least two things of value
- agreed-upon conditions
- a time of agreement and
- a place of agreement.

E. Relationships and Networks

Transaction marketing is part of a larger idea called relationship marketing. *Relationship marketing* aims to build long-term mutually satisfying relations with key parties —customers, suppliers, distributors—in order to earn and retain their long-term preference and business. Effective marketers accomplish this by promising and delivering high-quality products and services at fair prices to the other parties over time.

Relationship marketing builds strong economic, technical, and social ties among the parties. It cuts down on transaction costs and time. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A ***marketing network*** consists of the company and its supporting *stakeholders* (customers, employees, suppliers, distributors, university scientists, and others) with whom it has built mutually profitable business relationships.

F. Market

From the view point of modern marketing, market doesn't stand for a place where buyers and sellers gathered to buy or sell goods. A market is the set of actual and potential buyers. More specifically, a market is an arrangement of all customers who have needs that may be fulfilled by an organization's offerings. The size of a market depends of the number of people who exhibit the need, have resources to engage in exchange and are willing to offer these resources in exchange for what they want. The key customer markets can be: *Consumer market, Business Market, Global Market and Non-profit and Government market.*

Now marketers view the sellers as the *industry* and the buyers as the *market.* The sellers send goods and services and communications (ads, direct mail, e-mail messages) to the market; in return they receive money and information (attitudes, sales data). The inner loop in the diagram in Figure 2 shows an exchange of money for goods and services; the outer loop shows an exchange of information.

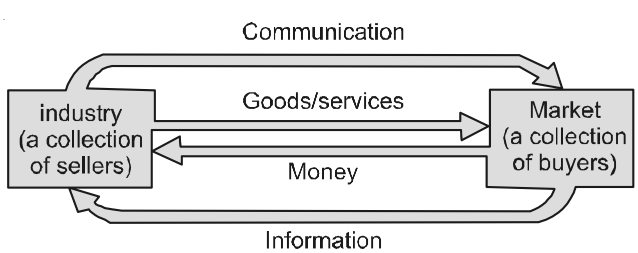

Fig. 2: Modern Market System

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Today we can distinguish between **a *marketplace,*** **a *market space and meta market***. The marketplace is physical, as when one goes shopping in a store; market space is digital, as when one goes shopping on the Internet. E commerce—business transactions conducted on-line—has many advantages for both consumers and businesses, including convenience, savings, selection, personalization, and information. For example, on-line shopping is so convenient that 30 percent of the orders generated by the Web site of REI, a recreational equipment retailer, is logged from 10 P.M. to 7 A.M., sparing REI the expense of keeping its stores open late or hiring customer service representatives. However, the e-commerce market space is also bringing pressure from consumers for lower prices and is threatening intermediaries such as travel agents, stockbrokers, insurance agents, and traditional retailers. The *meta market concept* describes a cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries. The automobile meta market consists of automobile manufacturers, new and used car dealers, financing companies, insurance companies, mechanics, spare parts dealers, service shops, auto magazines, classified auto ads in newspapers, and auto sites on the Internet. Car buyers can get involved in many parts of this meta market. This has created an opportunity for *meta mediaries* to assist buyers to move seamlessly through these groups.

G. Marketing Channels

Marketing channels means the parties that help the company to promote, sell and distribute its goods to final buyers**.** To reach a target market, the marketer uses three kinds of marketing channels:

1. **Communication channels:** deliver and receive messages form target buyers and include newspapers, magazines, radio, television, mail, telephone and the internet.
2. **Distribution channels:** The marketers use this channel to display, sell or deliver the physical products or services to the buyer or user. They include distributors, wholesalers, retailers and agents.
3. **Service channels:** The marketer also uses service channels to carry out transaction with potential buyers. Service channels include warehouses, transportation companies, banks and insurance companies that facilitate transaction.

H. Segmentation, Target market and Positioning

Market Segmentation means dividing a market into smaller groups of buyers on the basis of different needs, characteristics or behavior. Market segments can be identified by examining geographic, demographic, psychographic and behavioral differences. The marketer then decides which segments present the greatest opportunity which is its **target market**. For each chosen target market, the firm develops a market offering. The offering is **positioned** in the minds of the target buyers as delivering some central benefits. Thus, product positioning is the way a product occupies a place in the minds of the customers relative to competing products. Like, Volvo, positions its car as the safest a customer can buy, where Ford positioned on economy and Mercedes and Cadillac positioned on Luxury.

I. Supply Chain

It is the channel stretching from raw materials to components to final products that are carried to final buyers. The supply chain of women's' purse starts with hides and moves through

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tanning, cutting, manufacturing, and the marketing channels to bring to bring products to final customers. This supply chain represents a *value delivery system.* Each company captures only a certain percentage of the total value generated by the supply chain. When a company acquires competitors or moves upstream or downstream, its aim is to capture a higher percentage of supply chain value.

J. Competition

Competition includes all the actual and potential rival offerings and substitutes a buyer might consider. There are several possible level of competition:

Brand competition: A company sees its competitors as other companies that offer similar products and services to the same customers at similar prices. Volkswagen might see its major competitor as Toyota, Honda and other manufacturers of medium period automobiles. It would not see itself to compete with Mercedes or Hyundai.

Industry competition: A company sees its competitors as all companies that make the same product or class of products. Volkswagen would see itself competing against all other automobile manufacturers.

Form competition: A company sees its competitors as all companies that manufacture

products that supply the same service. Volkswagen might see itself as competing against not only other auto mobile but also against manufacturers of motor cycle, bicycles and trucks.

Generic competition: A company sees its competitors as all companies that compete for the same consumer dollars. Volkswagen might see itself competing with companies that sell major consumer durables, foreign vacations and new homes as substitutes of spending on a Volkswagen.

K. Marketing Environment

Competition represents only one force in the environment in which all marketers operate. The overall marketing environment consists of the task environment and the broad environment.

The *task environment* includes the immediate actors involved in producing, distributing, and promoting the offering, including the company, suppliers, distributors, dealers, and the target customers. Material suppliers and service suppliers such as marketing research agencies, advertising agencies, Web site designers, banking and insurance companies, and transportation and telecommunications companies are included in the supplier group. Agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers are included with distributors and dealers. The *broad environment* consists of six components: *demographic environment, economic environment, natural environment, technological environment, political-legal environment,* and *social-cultural environment.* These environments contain forces that can have a major impact on the actors in the task environment, which is why smart marketers track environmental trends and changes closely.

L. The marketing program and marketing mix

A marketing program consists of numerous decisions on the mix of marketing tools to use for their target market.

The **marketing mix** is the set of marketing tools the firm uses to pursue its marketing objectives in the target market. McCarthy classified these tools into four broad groups that he called the four P's of marketing: product, price, place and promotion.

(a) Product: Product means the combination of goods and services that the company offers to the target market.

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(b) Price: Price is the amount of money customers have to pay to obtain the product.

(c) Place: Place includes company activities that make the product available to target consumers.

(d) Promotion: Promotion means the activities that communicate the merits of the product and persuade target customers to buy it.

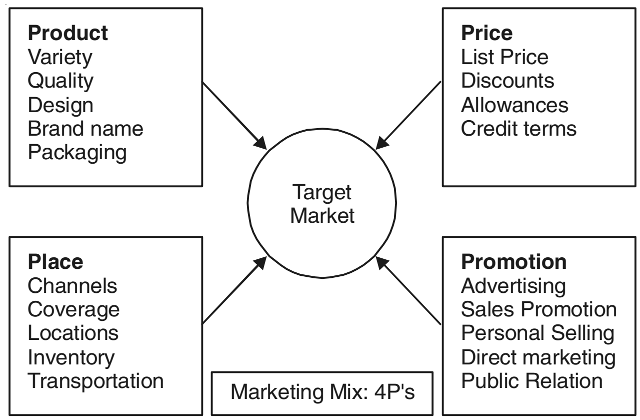

Fig. 3: The Four P Components of the Marketing Mix

Four P's represent the sellers view of the marketing tools available for influencing buyers. From a buyer's point of view, each marketing tool is designed to deliver a customer benefit. Robert Lauterbom suggested that the seller's four P's corresponded to the customer's four C's.

<u>**Four P's**</u>	<u>**Four C's**</u>
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

The latest way to view four P's from buyers' perspective is **SIVA** which stands for

Solution: How can I get a solution of my problem? (Represents the product)

Information: Where can I learn more about it? (Represents promotion)

Value: What is m total sacrifice to get this solution? (Represents Price)

Access: Where can I find it? (Represents place).

Extended Marketing Mix (3 Ps)

Now a day's three more Ps have been added to the marketing mix namely People, Process and Physical Evidence. This marketing mix is known as extended marketing mix.

People: All people involved with consumption of a service are important. For example workers, management, consumers etc.

Process: Procedure, mechanism and flow of activities by which services are used.

Physical Evidence: The environment in which the service or product is delivered, tangible are the one which helps to communicate and intangible is the knowledge of the people around us.

1.4 MODERN CONCEPTS OF MARKETING

Marketing concept proposes that an organisation should focus on customer needs and wants, coordinate its efforts, and endeavour to accomplish organisational goals. Geraldine E Williams reported that the CEO of Nike said, “For years we thought of ourselves as a production-oriented company, meaning we put all our emphasis on designing and manufacturing the product. But now we understand that the most important thing we do is market the product. Alan Grant and Leonard Schlesinger are of the view that market- orientation requires organisation-wide generation of market intelligence across departments, and organisation wide responsiveness to it. It means establishing a reliable information system to learn about real needs of customers and design the right need satisfying solutions. Setting up an information system can usually be an expensive proposition and requires committing money and time to its development and maintenance. Company-wide coordination may require restructuring the internal operations and overall objectives in case of one or more departments. Appreciating the critical role of marketing, the head of marketing has to be part of the top management team. Acceptance and implementation of marketing concept demands support of top management and other managers and staff. To inculcate a customer-orientation culture, it is necessary that employees at all levels in the organisation should understand the value of the customer and the importance of the customer satisfaction. Obviously, the internal customers (company employees at all levels) themselves should be satisfied and motivated to promote an organisation-wide culture that puts high value on creating a satisfied customer. For this, the company has to ensure an appropriate work environment and take care of their legitimate needs.

The marketing concept emphasizes three main principles.

Customer-oriented Planning and Implementations

It should be the sole aim of all employees, irrespective of their department or functional area, to satisfy customers’ needs. It would require carefully segmenting the market on the basis of the right criteria, targeting suitable segment(s), learning about customer needs and wants, analysing and spotting the right opportunities and matching them with rnany Indian companies against their foreign competitors.

Coordination of all Organisational Activities

Mainly product planning, pricing, distribution, and promotion should be combined in a sensible and consistent manner, and the head of marketing should be a part of top-level management.

Coordinated Marketing is critically important to Achieve Organisational Goals

The reward of doing the job well will bring in sales and profits because without profits, the firm cannot survive, neither would it be in a position to improve its offers.

Marketing concept is significantly different from production concept and selling concept. Not long ago, Indian auto companies, Hindustan Motors, Premier Automobiles, and Bajaj Auto hardly showed any consideration for customers, producing obsolete models in large numbers (demand exceeded the supply). Though the prices kept on increasing, little was done to improve the models. Bajaj was the only manufacturer of scooters preferred by customers and to own one, customers had to deposit money in advance and wait for five to ten years before they could become proud owners. It is only after the entry of Maruti. Cars, with Japanese collaboration, those things started changing. Premier Auto and Hindustan Motors experienced major setbacks, sales declined and ultimately there were hardly any willing buyers. In the beginning, Maruti found it difficult to meet the demand and buyers willingly booked the car and waited for delivery. Bajaj Auto faced a similar situation as customers had many choices

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of two-wheelers. The position now appears as if almost every auto manufacturer is desperately trying to please customers. Customers have strong preferences for certain features and price ranges. Maruti has even started selling second-hand, reconditioned, and reliable cars from its outlets to customers Iooking for such deals, is order to expand its hold on the market.

1.5 MARKETING STRATEGY

Marketing strategy refers to actions for developing, pricing, distributing, and promoting products that meet the needs of specific customer groups. It determines the best use of the company resources to formulate an action plan to meet its objectives. Marketing strategy focuses on analysing and selecting target market, and developing suitable marketing mix for this target market.

Target market is a group of relatively homogenous customers who share similar types of specific needs and product preferences. Businesses that aim to satisfy the needs of all customers generally end up not satisfying the needs of any particular customer groups well. Careful target market selection may be the important decision for a company to achieve its marketing objectives. Defining the target market and developing the appropriate marketing mix are the keys to strategic marketing success. Just going by assumptions about the characteristics of target market and not knowing the set of product attribute preferences can prove to be a fatal mistake in case of many product categories. For example, Avanti moped was a sound product technically but mistakenly positioned and promoted as a family-two-wheeler. It failed miserably because the choice of target segment was inappropriate and ultimately resulted in huge losses and closure of the business. When analysing and assessing the potential target markets, managers also take into consideration company resources and skills to develop the right combination of marketing mix that would effectively satisfy the target market needs and that this would be consistent with the company's overall objectives.

Proper selection of the target market and knowing the preferences of customers serves as the foundation on which the appropriate marketing mix can be developed.

1.5.1 Bank Marketing Strategy

Strategy can be defined at least two different perspectives, first from the perspective of What an organisation in tends to do and second from the perspective of what an organisation eventually does. From the first perspective, " the strategy is the board programme for defining and achieving an organisation's .

1.5.2 Bank Marketing Strategy–The Concept

The term marketing focuses on strategic decisions for marketing goods or services. Since we are aware of the concept of strategy, the marketing strategy draws our attention on the managerial proficiency of a marketing manager in conducting a campaign that simplifies the task of achieving the marketing objectives. We also consider it a game plan for the marketing manager that helps him in devising ways for the formulation of a sound marketing mix.

1.5.3 Types of Strategy

(a) Market-Leader Strategy

(b) Market Challenger Strategy

(c) Market-follower Strategy

(d) Market-Nicher Strategy

(a) Market-Leader Strategy

The market leader strategy is for those who occupy a dominating position in the market and have established their reputation as a leader. By virtue of having a leadership in the market, it is natural that the market share of the concerned bank is at the top. The leader is an orientation point for the competitive banks and willingly or unwillingly, they have to realise the dominance of the leader. While formulating marketing strategy, the leader banks need to expand the total market, market share vis-a-vis to defend the same. An expansion in the total market is essential to continue as a leader. This makes it essential that the leader banks are very punctual while formulating the marketing mix and whatever the services are made available by them establish an edge over the followers.

A market leader should carefully consider which terrains are important to defend even at a loss or which can be given up with little risk. It is natural that the leader cannot defend all of its positions in the market and therefore it must concentrate its resources where they count. The aim of defensive strategy is to reduce the possibility of attack or to divert attacks to less threatening areas or to lessen their intensity.

(b) Market Challenger Strategy

The Market Challenger Strategies are the marketing strategies adopted by the banks, either occupying the third or runners-up position in the market, to attack the leader or the immediate competitor with the intention to capture a greater market share and earn huge revenues. Generally, the market challengers are those banks, which have a good reputation in the market and enjoys a strong financial position. These firms target the market leader or the competitor at the same level with the objective, to reach the first position in the market or become an industry leader.

The following are the general attack strategies adopted by the market challengers with a view to becoming a market leader and increase the market share.

1. **Frontal Attack:** The frontal attack is the direct attack, wherein the market challenger matches with the competitor's product, price, advertising, and promotion activities.
2. **Flank Attack:** The flank attack means, attacking the competitor on its weak points. Here the market challenger determines the weak areas of the competitor in terms of two strategic dimensions i.e. Geographic and segmental.

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3. **Encirclement Attack:** The encirclement attack means, attacking the market leader or a competitor from all the fronts simultaneously, it is the combination of both the frontal and the flank attack.
4. **Bypass Attack:** The bypass attack is the indirect attack, wherein the market challenger does not attack the leader directly, but broaden its market share by attacking the easier markets.
5. **Guerrilla Warfare:** The Guerrilla warfare is the intermittent attacks imposed by the challenger to demoralize the competitor by adopting both the conventional and unconventional means of attack.

Thus, These are the major market challenger strategies that a bank may follow depending on its market position and the amount of resources held with the bank.

(c) Market-Follower Strategy

The rule of business is that when you are a market leader, there are definitely going to be market followers. Many banks come out with a market follower strategy. In fact, in today's world, the competency of all banks is so high that innovation is quickly copied or imitated in different formats.

Market followers are bound to exist in a mature market. The market followers are wider in case of online marketing because online marketing has lower entry barriers and higher returns.

(b) Market-Nicher Strategy

A niche market is the subset of the market on which a specific product is focused. The market niche defines as the product features aimed at satisfying specific market needs, as well as the price range, production quality and the demographics that is intended to impact. It is also a small market segment. The nicher in a natural way achieves high margin whereas the mass market achieves high volume.

1.6 STP APPROACH

STP Approach or the segmentation, targeting and positioning approach is vital for any business. It is vital in the sense that wrong decisions regarding these can be fatal for the organization.

Segmentation is the process of grouping people or organizations within a market according to similar needs, characteristics, or behaviours.

Targeting is the actual selection of the segment you want to serve the target market is the group of people or organizations whose needs a product is specifically designed to satisfy.

Positioning is the use of marketing to enable people to form a mental image of your Product in their minds (relative to other products).

Segmentation can be done on the basis of demographic variables like age, gender, religion, ethnicity, income etc. Various players in the insurance industries have various plans according to different age groups. For children, they have child insurance plans, education plans, for adults they have early retirement plans, life insurance plans, for mature they have health insurance, old age pensions schemes etc.

Market can also be segmented on the basis of gender. Banks and insurance companies have different plans and schemes that appeal to men alone, women alone or both.

Income is perhaps the most important and easiest way to segment a market. Insurance companies have plans ranging from small amounts to big amounts that they try to sell to low and high. income groups respectively.

Another basis of segmentation can be on the basis of geography. People living in different areas have different needs because of the change in living conditions. So marketers have a task of understanding their requirements and designing their services accordingly.

Behavioral Segmentation can also be done. Under this, the population can be segmented on the basis of occasions, user status, benefits sought and user rate. For example, People tend to spend more during festivals so they can be targeted on the basis of their celebrated festivals like Deepavali, Id, Christmrs, Onam, Ganesh Chaturthi, Bihu, Durga Puja etc.

1.7 GOODS AND SERVICES MARKETING

The issues associated with marketing of services are somewhat different than goods marketing. This is because of typical characteristics of services. According to Christopher H. Lovelock, typical characteristics of services include (l) Intangibility (2) Inseparability of production and consumption (3) Heterogeneity (4) Perishability (5) Client-based relationship, (6) Customer contact.

Intangibility

Unlike most physical products, where a prospective buyer can examine the physical dimensions, aesthetic looks, and other aspects, a pure service cannot be assessed using any of the physical senses. Many promotional claims about tangible aspects of a product can be verified by examining the product before buying. Intangibility of services means there are no such aspects and a service cannot be seen, touched, tasted, or smelled. For example, it is not possible for an aspiring student to see, touch, taste, or smell education that students get in a management institution from attending classroom lectures and completing a variety of assignments. The consumer experiences the reliability, expertise, attentiveness, and personal care of staff etc., only when a service has been bought and consumed, Physical products have certain benchmarks against which quality can be evaluated but any quality parameters can often be defined in the minds of consumers. Much depends on the expectations of customers.

intangibility of services poses some problems for service marketers. A service marketer sells a promise to customers and customers are forced to place some degree of trust in the service provider to get the expected level of service performed.

Marketers also face problem in communicating with customers about pure services because there is nothing tangible to put in ads or display in a store. Where tangible products are an important part of service offer, the problems may not be so challenging. The visible part gives customers some basis to assess quality. For example, an auto service garage may have reassuring tangible cues to build customer confidence, but here is really nothing tangible to show in case of life insurance. Lack of tangible aspects increases the degree of uncertainty among consumers while considering competing offers. It is interesting to note that wherever possible, service marketers strive to add tangible physical evidence to their service offer and pure tangible product marketers often try to augment their products by including elements such as assured post-purchase service.

Pricing of services also poses problems. In case of tangible products there are raw. Materials and labour cost to have some pricing base, in case of many services determining the cost of producing and delivering the service is very difficult. For example, to determine the price of

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producing and delivering a massage or haircut is very difficult. Besides, marketers may face difficulty for justifying the prices of services to customers because customers cannot evaluate services before their actual consumption.

Inseparability

In case of tangible products, their production and consumption are two separate activities and consumers are not a part of the process of production. Goods are generally produced in some central location at different times, stored, and transported to those locations where there is existing or potential demand. Inseparability of services refers to the fact that service production and consumption cannot be separated. Both, the production and consumption of services take place simultaneously. Tangible products can be bought, taken to home, stored, and consumed after sometime. This characteristic of services has implications for marketing.

Because of inseparability, the role of service provider becomes very important in the Process of delivery and in some extreme cases of personal customer care must participate in the production of service. For instance, the patient must be present and participate in a surgery; a consumer must be present in a face uplift service. Mary Jo Bitner reported that for services such as education, healthcare, and hairstyling, the service provider is the service in the eyes of consumer. The service marketer must pay careful attention to proper training of service personnel.

Heterogeneity

With technological advances, most tangible products can now be produced with high degree of consistency. However, people-based services are usually susceptible to variability, or variation of quality. It is very difficult to ensure service consistency because of the very nature of human beings. Tangible products offer the opportunity of inspection and rejection before delivery but this is normally not possible in case of services. Service marketers' greatest concern is about the variability in production standards of services, where consumers are highly involved in service production process and monitoring it is impractical such as personal healthcare. In case of machine-based services, such as telecommunication, it is possible to operate services at highly standardised level. The variation in service quality can occur in four ways: (1) variation from one marketer to another, (2) from one service to another in the same company, (3) from one outlet to another within the same company, or (4) the service delivery of the same employee can vary from customer to customer, day to day, or even hour to hour in the same day. Generally, equipment-based services are viewed as less variable than those requiring high levels of personal involvement in the production process.

In general, variability of service poses some problems to marketers in building brands. Service organisations try to minimise variability and focus on improving methods to select, train, motivate, and control service personnel. Companies also try to customise services to match the specific needs of consumers in an attempt to gain advantage, wherever l possible, marketers are shifting to equipment-based services to minimise heterogeneity. For example, increasingly different banks are installing ATMs to do away with human intervention and many banks are upgrading their systems to offer online-banking services etc. These are methods to change high-contact services into low-contact services.

Perishability

Very few services face a constant pattern of demand through time. Most services show considerable demand fluctuations. D. L. Kurtz and L. E. Boone observed that the utility of most services is short-lived. Unlike physical goods, services cannot be stored. Tangible product manufacturers can stock unsold products to be sold in future. By contrast the unsold service capacity of one occasion cannot be stored to be sold on future demand occasions. For example, if any passenger seats in an airlines flight remain unsold, these vacant seats cannot be sold after the flight departs and the capacity cannot be stored to meet extra demand on some other occasion and is wasted for that particular occasion, for these reasons, service marketers face problems in managing supply and demand. Airlines use sophisticated system of seat reservations to ensure full occupancy by manipulating the prices several times for each flight to maximise revenues. Service demand is also time or season sensitive and many services such as passenger trains, roadways, and movie theatres etc., face peak-demand and off-peak demand problems. Every vacant seat means loss of revenue on that occasion and non-availability of service involves opportunity cost.

Client-based Relationships

According to Paul Peter and James H. Donnelly, the success of certain services depends on developing and maintaining interaction with customers that causes satisfaction and leads to repeat purchases over time. For example, lawyers, accountants, and financial consultants view their customers as clients. These professional service providers are successful only to the extent that they maintain a group of clients who retain them as advisors on an ongoing basis. Satisfied customers recommend them to others and through positive word of mouth; these professionals build a satisfactory list of satisfied clients. It is only through delivery of high-degree of service satisfaction that the customers become loyal to the service provider. Many customers repeatedly use the services of a particular insurance agent on an ongoing basis and through their word of mouth the insurance agent builds a long list of clients.

Customer Contact

This refers to those services where interaction between service provided and the consumer is necessary for service delivery. In these situations, service delivery employees become the source of creating satisfied customers. One of the major principles of customer contact is that satisfied employees lead to satisfied customers, and vice versa. Research studies indicate that employee satisfaction is the single most important factor in delivering nigh service quality. Thus, paying attention to training and motivating employees for customer-centred performances can help minimise customer contact problems. Service companies are trying to minimise customer contact problems by shifting high-contact services to low-contact ones by taking help of modern technological advances. This often creates the problem that service becomes more impersonal and the nature of human beings is such that they like personal contact.

1.8 LET US SUM UP

Marketing is customer oriented; it starts and ends with the customer. All successful Companies have a strong customer focused network. Different authors have different definitions of marketing. The essence of all the definition is satisfying all needs and wants of the customers. Marketing involves delivering value and satisfaction to the customers through their products, services and ideas in a dynamic environment. With the opening up of the Indian economy and increasing globalization, marketing is gaining importance day by day. Marketing is a societal process and marketing concept constitutes that an organisation should focus on customer needs and wants, coordinate its efforts, and endeavour to accomplish organisational goals. Marketing strategy refers to action for developing, pricing, distributing, and promoting products that meet the needs of specific customer groups. Segmentation, targeting and positioning are the essence of any marketing program. Segmentation is the process of grouping people or organizations within a market according to similar needs, characteristics, or behaviours. Targeting is the actual selection of the segment you want to serve the target market is the group of people or organizations whose needs a product is specifically designed to satisfy Positioning

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is the use of marketing to enable people to form a mental image of your product in their minds. The issues associated with marketing of services are somewhat different than goods marketing. This is because of typical characteristics of services: intangibility, heterogeneity, Perishability, client based relationship and customer contact.

1.9 KEYWORDS

- ***Marketing:*** in a nutshell, means satisfying consumer's needs and wants
- ***Marketing concept:*** focusing on consumer's needs and wants
- ***Segmentation:*** dividing market on the basis of homogenous characteristics
- ***Target market:*** group whose needs a product is specifically designed to satisfy
- ***Positioning:*** creating an image of a company or product in customer's mind
- ***Intangibility of services:*** services cannot be seen, touched or smelled
- ***Inseparability of services:*** simultaneous production and consumption
- ***Perishability:*** services cannot be stored

1.10 QUESTIONS FOR DISCUSSION

1. Explain the relevance of marketing in modern world.
2. What do you understand by the term marketing? Explain the scope of marketing.
3. How is the marketing different form the earlier concepts of production, product and selling?
4. "Target market and developing the appropriate marketing mix are the keys to strategic marketing success". Discuss.
5. Why is STP vital for any organization? Explain with examples.
6. How is service marketing different from products marketing?

Check Your Progress

Model Answers

1. Positioning
2. Demographic
3. Marketing Mix

1.11 SUGGESTED READINGS

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UNIT 2: CONCEPT OF BANK AND INSURANCE MARKETING

Structure

2.0 AIMS AND OBJECTIVES

After going through this unit, you will be able to:

- Understand the basic of bank and insurance marketing
- Explain the formulation of marketing mix for banking and insurance sector
- Describe the promotional strategy for banks and insurance sector
- Know the basic problems related to life insurance marketing
- Understand the concept of relationship marketing

2.1 INTRODUCTION

After the Liberalisation, Privatization and Globalisation reforms in 1990s, the entire banking and insurance structure has undergone a major change. As part of the economic reforms, banking industry has been deregulated and made competitive. New players have added to the competition. IT revolution has made it possible to provide ease and flexibility in operations to customers. Rapid strides in information technology have, in fact, redefined the role and structure of banking and insurance in India. Further, due to exposure to global trends after Information explosion led by Internet, customers - both Individuals and Corporates - are now demanding better services with more products from their banks. Financial market has turned into a buyer's market. Banks are also changing with time and are trying to become one-stop financial supermarkets. Market focus is shifting from mass banking products to class banking with introduction of value added and customized products.

2.2 BANKING AND INSURANCE MARKETING

A Bank is a financial institution that accepts deposits and channels that deposits into lending activities. Bank marketing refers to all those activities that cater to the financial and other related needs of the customers, keeping in mind the objective of customer satisfaction. Customers deposit their money with banks only if the bank is a trusted name in the industry and banks gives loans only to the trusted customers who have passed all credit checks. For banking industry, trust is more important than capital. With ever increasing financial needs of the people and their changing preferences and beliefs, banking has gained a lot of importance for all classes alike. Market is expanding a big time for this industry. Corporate lending has become important area of business for many banks. With advent of non-banking financial institutions, banks are facing an aggressive competition in the market, banks need to gear up to thrive in this new market.

Like in banking sector, competition has also increased in the insurance sector. Earlier LIC of India, GIC, National Insurance, etc. were the only few players in this sector but with changing times and market conditions, new players like ICICI Prudential, Birla Sun life, Max New York Life Insurance and Bajaj Allianz have entered the market. A wide range of structural changes have changed the insurance industry in India. Insurance Business is also built around trust that is build by the marketer. Most of the insurance companies today want to win customer's confidence by promoting their brand extensively in the market. Many private insurance companies have tied up with international players to leverage the global presence and experience. To instill faith and trust in customers, some insurers recruit such people who belong to the target segment. It has become increasingly important for insurance firms to start marketing in a big way to sustain themselves in the face of competition.

2.3 FORMULATION OF MARKETING MIX

The marketing mix for the services consists of 4+3 Ps. This is called an extended Marketing mix. The marketing mixes for banking and insurance sector' would include:

1. **Product/Service Offer:** The services offered by a bank and insurance company would be its products. Banking products include Savings Account, Current Account. Term Deposit Account, Cash Credit, Certificates of deposit, and Commercial papers. Non-convertible Debentures (NCDs), housing loans, car loans, personal loans. consumer durable loans, education loans, loans against share, financing against gold, etc. Insurance products include life insurance plans, health insurance plans. child insurance plans, motor insurance, travel insurance etc. All these products are designed accordingly to meet various customer needs.
2. **Price:** The price paid by the customers decides the demand for the service and also the margins and revenues generated by it. Banks have been generating revenue mainly by charging interest on loans. But with changing times, banks also have many other sources of income like annual credit and debit card charges, penalties. commission on cross-selling etc. these pricing policies may be cost based, customer based or competition based. For Insurance products, the players adhere to the norms of IRDA (lnsurance Regulatory and Development Authority). A premium has to be paid by the insured to the insurer for the insurance granted under the policy. It may be a single premium, half yearly, quarterly or monthly. Insurance Law in India requires insurance premium to be paid in advance.
3. **Promotion:** Banks and Insurance sector, both are advertising heavily these days to attract customers. Due to heavy competition in both the sectors, even major players like SBI, Punjab National Bank, LIC of India have started extensive promotions. Designing a promotional strategy involves advertising, sales promotion, publicity, public relations, personal selling and direct marketing. Insurance companies mainly resort to personal selling and direct marketing. However, they also run interesting and creative advertisement

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to attract customers, HDFCs Life Insurance's campaign 'Sir utha ke jeeyo' is a big hit. These companies also provide various incentives to the customers like free gifts. Banks also provide various schemes to attract customers like lowered interest rates on loans, increased interest rates on fixed deposits, free gifts, customer oriented schemes etc. All these promotional strategies are aimed at increasing the customer base while retaining the old ones.

4. **Place (distribution)/Service Channels:** Banks are almost direct in their approach. But nowadays they also provide alternate channels for banking like, internet banking, telephone banking, ATMs, ALMs, Plastic Cards and Mobile ATMs. Insurance companies mainly run through channels. Insurance companies appoint agents who sell policies to the customers. Apart from these agents, there are specialist firms which sell policies of various insurance companies. Companies like Unicon Investment Solutions, SMC Global, Money Matters etc. are some companies which sell policies of other companies.

5. **People:** are very important aspect of banking and insurance marketing. The human resource plays vital role in deciding the fate of the company. Banks should hire people who have adequate knowledge about the banking products and current scenario. People at bank should be helpful and patient. People who came to bank for opening an account or for loans often don't know the procedures, therefore, it is the responsibility of the assigned person at the bank to deal with them patiently and solve their problems. In insurance companies, they require energetic and smart personnel with excellent convincing and communications skills. Onus is on them to put forward the plan to the customer and covert the meeting into a sale. Both, in banking and insurance sector personnel, specially the front office people play a vital role in making long term relationships with customers.

6. **Process:** It is a tactical tool for service marketer to achieve his goals. People tend to include the service delivery in the service itself'. All the work can be described in from of a process. All the activities, procedures, tasks and mechanisms are part of the service delivery process. In banks, the process stalls right from the reception of customers. It includes processing documents, giving feedback, dispatching necessary documents and all. It also includes policy decisions regarding level of customer involvement and employee discretion, Even the decision making process is a part of service delivery. There has to be a constant co-ordination between marketing and operating personnel. Same goes for the insurance sector, sales- force training, sales meeting, documents filing and processing, premium collection is all part of service delivery, If the process is too complex, then customers might feel annoyed and you may loose that customer. The customer should understand and perceive his participation at all the points of service delivery.

7. **Physical Evidence:** It refers to the service-scape and all the tangibles attached to the service. It includes the facility design, the equipments, signage, employee dress, documents, reports, business cards, slogans, logo, statements etc. They give a tangible feel to the service. In banks, the temperature, air quality, noise level, odor, layout, furniture, furnishings, signage, personnel dress, style of decor etc, matter a lot, People feel good when all these things are taken care of. In insurance, though agents dress code, documents, business card, company documents add tangibility to the service.

Check Your Progress

State whether the following statements are true or false:

1. Banks generate revenues only by charging interest on loans.
2. Front office people in banks are more important.
3. Trust is the most important thing in insurance marketing,

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4. Service delivery and decision making are two separate activities.
5. RBI governs the insurance bodies in India.

2.4 PROMOTIONAL STRATEGY FOR BANKS AND INSURANCE SECTOR

The banking industry has been facing intense competition since the opening up of the economy and entry of foreign players. Indian banks have also geared themselves up by upgrading their services and promoting themselves extensively. Banks use different promotional techniques like personal selling, advertising, discounts, melas etc. State Bank of India held a home loan melas and property fairs as markets became competitive. ICICI and HDFC opened up call centres to assist customers. Their customer care executives contact the customers personally and on phone to recommend new services to them. Banks have also tied up with various other companies, for mutual benefit as well as customer's benefit. For instance, ICICI bank has tied up with HPCL to offer a credit card to customers, which offers them many discounts and freebies. Banks have also tied up with various Petrol pumps to open up their ATMs at the petrol pump to facilitate customer usage. Banks also tie up with Malls and retail outlets for setting up their ATMs and increase usage of their bank's debit cards.

Banks also advertise heavily. They put up hoardings specifically in commercial areas, where the working professionals and businessmen can notice them. Banks also do segment advertising like they advertise for children education loans, travel loans, car Ioans etc.

Similarly, in the insurance sector, promotional activities have increased. The supply of insurance services tends to exceed demand and therefore, marketers have to adopt aggressive promotional strategy to "push" their policies. Personal selling is one of the most effective tools for promotion. The sales personnel need to be assertive and courteous, in order to convince a person to take up the policy. Insurance companies advertise mainly the need for insurance and benefits of insurance. Advertisements mainly stress on building company's image and emotional connect. As most of the companies offer similar type of services, advertisements showing policy benefits will not be beneficial. Sales promotional techniques are also useful for the insurance firms. They cab offer incentives in form of reduced premiums, gifts, discount coupons, sign-up rebates, future price discounts etc. Maintaining good public relations is very essential as insurance thrives on customer relations. The companies tie up with many banks, credit card companies and automobile companies to promote their brands. For example, Maruti Suzuki has tied up with Bajaj Allianz and National Insurance Corporation to provide insurance services to its customers.

2.5 LIFE INSURANCE MARKETING: BASIC PROBLEMS

Life Insurance Marketing is one of the toughest parts in the insurance marketing, It is mainly because of the conflicting interests of the insurance companies who want to rake tremendous profits and the customer who wants to get as much compensation as possible from the insurance company. Commissions for the life Insurance companies are very high and they don't make profits out of the policies so often. The terms and conditions of the life insurance policy should be transparent so that the potential customer understands it totally and should not feel that they have been treated unfairly by the insurance company.

The Life insurance companies got a little premium through young children and healthy persons and therefore, the scope for profit was limited and those who paid high rates of premium were the older customers who suffered from ailments and died and the insurance companies had to compensate for the loss. But, nowadays the Life insurance premiums are almost the same for any young adult or an old person who suffers from health problems from time to time.

Life insurance companies have a tough task of changing the perception of people. They should promote life insurance policies in very creative and transparent manner so that people take notice and connect to it. Even these companies can contact other organizations to get their employees insured with them or at least give them an option that employees who are looking for a life insurance plan can get themselves insured through their company. These companies can also to public places, put up canopies and advertise themselves solve people's queries. They can also opt for fliers and hanging banners. These companies can also tie up with reputed hospitals and offer free health checkup and suggest people to opt for your policies.

Most of the companies offer similar types of premiums and facilities; this is making the competition much tougher for the Life insurance companies. It has become very important these companies to concentrate on marketing and attract as many people as possible towards their company.

The Life Insurance Companies prefer that they sell insurance to a group of people like employees from a particular company or members of a family so that they get a collective group of customers and even if they have to compensate for some of them for any given reasons, they can make it up with other's premiums. These type of policies usually involve less paper work so becomes harder for the marketers to promote them ln order to promote this type of policy the marketers need to have strong social and industrial connections. Even for other policies like term life insurance and permanent insurance, the marketers have a task of making people aware of the benefits of these policies by various means of promotion.

For Life Insurance Marketing, one actually needs to know the target market and the Profiles of the people who are actually seen as potential insurance customers. The Problem can be reduced to a great extent if the marketer segments the market carefully and exactly who their target customers are. So, it is important to conduct a ground level survey to know the profile of the potential customers and then approach them.

2.6 RELATIONSHIP MARKETING

According to Berry and Parasuraman, "Relationship marketing is attracting, maintaining and multi service organizations-enhancing customer relationships".

According to Shani D and Chalassani S, Relationship marketing " is an integrated and coordinated effort to identify, maintain and build up a network with individual consumers and employees and continuously strengthen the network for the mutual benefits of sides, through interactive, individualized and value added contacts continuously and over a long period of time".

The customer is the main compelling feature for focusing the activities of the service marketer. The service marketer should concentrate on the service transaction process -less with the intent to hook the customer and turn the encounter into a successful sales transaction and more with a view to completely satisfy his need. The service marketer should build long term relationships which results in repeat encounters and successful customer retention.

For example, when an insurance agent (or 'advisor' as the present nomenclature is) makes his 'pitch', he is intent on selling those products that would earn him more commission. The advisor is really supposed to do a critical need analysis of the consumer and then offer him alternatives, which would suit his present and future budgets. The advisor should also keep in mind that the customer would have growing needs and there will always be opportunity to offer other products to the customer later. He should therefore shift his focus from a single transaction sale to long-term relationship building.

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Many service firms, cushily placed under monopoly and control regimes, did not have customer orientation and instead followed the transactional route, looking for short-term objectives. It was easier and required less involvement on the part of the service marketer, but many realized that it was turning out to be expensive to create customers - and then keep creating more. It was cheaper to have effective customer retention strategies in place.

The long and the short of it is that, building relationships with the customer (who incidentally is NOT interested in having any additional bondage) and marketing for it is the key to as intangible an offer as services. As the subsequent sections will explain, different customers have scope for different relationships.

Relationships between the customer and the service provider keep changing from the time of their acquisition to their retention. In the beginning the relationship is that of prospects, of mutual evaluation. After they have decided to choose each other the service firm re-designates the prospect as a customer. He has potential and there is tremendous scope for them to symbiotically grow with each other. Deeper need analysis of the customer is made and the customer reciprocates in the strength-weakness analysis of the provider for his range of services.

The customer begins to trust the provider and the provider categorizes him as a high net worth entity. The customer metamorphoses as a client. He now merits individual and personalized attention from the service provider. With stronger relationship, he, to varying degrees, becomes an unpaid salesman of the service firm. From a supporter of the firm he becomes an advocate, recommending the firm to whoever seeks referrals. He often eulogizes the service provider, unsolicited. In other words, so delighted is he with the service that he has metamorphosed into a missionary. That would be termed as successful service marketing exercise.

For a service firm, its marketing philosophy should be:

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

2.7 LET US SUM UP

As part of the economic reforms, banking industry has been deregulated and made competitive. New players have added to the competition. IT revolution has made it possible to provide ease and flexibility in operations to customers. A Bank is a financial institution that accepts deposits and channels that deposits into lending activities. Bank marketing refers to all those activities that cater to the financial and other related needs of the customers, keeping in mind the objective of customer satisfaction. Marketing mix of any service firms includes seven major decisions, regarding: product/service offering, pricing decisions, promotion, place/ service channels, people, process and physical evidence/service scape. Banks use different promotional, techniques like personal selling, advertising, discounts, melas etc. Banks have also tied up with various Petrol pumps to open up their ATMs at the petrol pump to facilitate customer usage. The supply of insurance services tends to exceed demand and therefore, marketers have to adopt aggressive promotional strategy to “push” their policies. Relationship marketing is attracting, maintaining and in multi service organizations-enhancing customer relationships. The customer is the main compelling feature for focusing the activities of the service marketer. The service marketer should concentrate on the service transaction process – less with the intent to hook the customer and turn the encounter into a successful sales transaction and more with a view to completely satisfy his need.

2.8 KEYWORDS

- **Banks:** accept deposits and channels them into lending activities
- **ALM:** Automated Lending Machine
- **Service-scape:** physical evidence related to services
- **Relationship marketing:** attracting, maintaining and enhancing customers

2.9 QUESTIONS FOR DISCUSSION

1. Market focus is shifting from mass banking products to class banking with introduction of value added and customized products. Comment.
2. How the nationalized insurance players have adapted to the increased competition private players?
3. Customer Trust is most important for any insurance company. Discuss.
4. Give a brief outline of the marketing mix of the banking sector.
5. What are the promotional strategies adopted by the insurance companies to attract customers?
6. Mention two advertisements by any insurance company and discuss their probable impact on customers.
7. Why is it important for the banks to retain customers?

Check Your Progress

Model Answers

1. False
2. True
3. True
4. False
5. False

2.10 SUGGESTED READINGS

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UNIT 3: BEHAVIOUR OF CONSUMERS

Structure

3.0 AIMS AND OBJECTIVES

After going through this unit, you will be able to:

- Behavioural profile of the consumers
- Factors influencing customer Behaviour

3.1 INTRODUCTION

The customer is the main reason for the existence of the service firm, forming the basis all marketing strategies like segmenting, targeting and positioning. Without an

Understanding of the customer, it would be impossible for the marketer to deliver the offer, more so in the face of increasing competition, In this lesson, we will study the various aspects of consumer Behaviour.

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3.2 BEHAVIOURAL PROFILE OF THE CONSUMERS

3.2.1 Black Box Effect

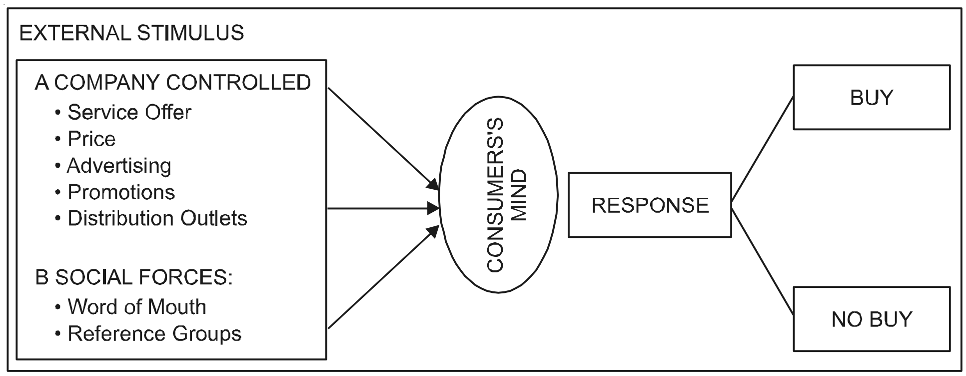

Fig. 1

The marketer can try to stimulate the consumer but is not sure which way the buyer of the service would react: to buy or not to buy the offer. All that the marketer can study are all the external stimuli acting on the consumer, and his responses. The external stimuli are of two types:

- Those controlled by the company through its marketing mixes like the offer, price of sale, advertising, special promotions like freebies, add-ons or celebrity endorsements (author Arundhati Roy having a book reading and signing session at the book retail store Crossword)
- Those which are social sources, like word-of-mouth and emanating from reference groups which have strong recommendation effect.

With this study - marketing, market and consumer research - the service marketer can claim to understand the consumer reasonably well. He can then tailor his marketing programme accordingly.

3.2.2 Who is the Customer?

It is imperative for the service marketer to answer this simple question. The customer is both an individual as well as an organization, Al though both might buy the same service offer; the marketing to acquire the customer will be totally different:

Communication: For the individual customer (occupant) mass media will be used for communication, while for the institutional customer it is more personal selling; the only media used would be trade papers.

Decision maker : While the individual customer is the decision maker whose actions affect him and his family the most, for the institution it is the actions of the purchase manager which affect the whole set of employees. For example, an individual customer might apply for a loan or open a savings account with a bank. He would make the decision and he alone would be affected by it. But when an organization, say a pharmaceutical company, goes for a long-term arrangement with a bank and opens a current account and salary accounts for its employees or applies for a corporate loan then the decision maker is one - definitely perhaps a senior person like the MD - but his decision would affect a large number of people.

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Emotional vs. rational needs: There is more rationality in the decision-making by the institutional customer than by the individual customer. A computer service contract for a bank follow the tender and quotation route-partly because of the volume of business-while the same decision-making would be instinctive for an individual customer.

3.2.3 What does the Customer Buy?

The customer mostly buys goods, services, people, places, events, organizations, ideas, information and experiences. All these generally fall under goods and services. But the offers that they buy can be:

- High involvement offers
- Low involvement offers/Impulse offers

High involvement service products have the following characteristics:

1. **Complexity of features:** If the service product has complex features, it will induce anxiety in consumers. They will take more time to understand service product usage, feature familiarization as well as internalization. Thus, an SLR (single lens reflex) camera preferred by professional photographers will induce higher involvement from the consumers than box cameras with only point-and-shoot features.
2. **High price:** High prices of service products will make consumers slow and cautious in their decision making. This is the reason why they will debate on the pros and cons of consumption or service transaction costs of a vacation, more than they would for a hair-cut.
3. **High perceived risks:** A consumer perceives risk in consumption in two forms: bodily harm and financial loss. When Shalini goes for cosmetic surgery, she will perceive higher risk in the offer than for a routine facial. Similarly, when the Kapoors go for an investment in a green field project or in a real estate deal, they might feel the risk of looming financial loss.
4. **Large differences in features:** If the consumers perceive that across a service categories there are large differences in features, then they would be highly involved. And if the situation is as in the home appliance industry, where consumers really don't perceive much difference between products, then their involvement becomes low.
5. **Large number of users:** If there are a large number of users for a service offer, like a family package tour, then there is going to be more participation and involvement from all family members. This is unlike when only one person is a consumer- like Pooja deciding to take a computer course during her school vacation.
6. **Enduring product:** If the service offer has a long life span or has a longer lasting effect-like a time share purchase or selection of a school for a child - then it will make the decision-maker highly involved.
7. **Reflects self-concept of the buyer:** Consumers are very much aware of their Self-image - and either want to maintain or change it. They do so by purchasing. Products and services hoping that by doing so it will reinforce their personality and self-image or help them acquire a new one. This aspect is so close to the well-being of consumers that they become highly involved with the purchase. For example, when the Sukumarans think about a club membership they will evaluate the offer in depth and choose the club according to their self-concept and self-image.

Low involvement service products have the following features:

1. Low price
2. Less difference in features
3. Simple features in the service product
4. Does not reflect a consumer's personality
5. The products are of mostly daily needs
6. Low brand loyalty

However, services offered by banking and insurance companies are all high involvement services. Customers take considerable time and thinking to decide on the type of service required and company he will approach. For example, an individual has to decide on which type of account to open, savings account or joint account, where to invest-in fixed deposits or in shares, which bank to approach, SBI, PNB, ICICI or any other.

3.2.4 Consumer Roles

Initiator/Influencer

In this role, a person is responsible for germinating the idea of consuming or experiencing the service offer in the customer. He could be a family member or an outsider - like neighbours, colleagues, relatives, etc. Thus, if the Chopras are ecstatic after a service experience at Axis Bank, then they could be influencing their neighbour. The would be decision maker refers to them, trusts them and believes in their expertise in the offer. There are two types of reference groups that a person is influenced by: the primary reference group which includes family members, colleagues, neighbours, whom he meets regularly but informally, and the secondary reference groups which include social circles, religious meetings and sports club acquaintances, whom he meets irregularly but formally.

The marketer should identify such groups and use them in his communication strategy to reinforce their influence. Word-of-mouth communication is very effective for primary groups, while endorsements by known personalities would be suitable for secondary groups.

Information Gatherer

This person is very resourceful and has the ability to gather all possible information of the service offer. Based on his search, the decider can take an informed choice or decision. The service marketers should target the information gathered in his communication strategy, giving him all possible information on request, Imagine the situation, wherein a customer has difficulty in getting certain information on a loan processing procedure: that particular offer will be ignored by the decider - and the marketer loses a customer. Especially in a service industry—where the provider plays such a crucial role - the marketer needs to have such systems as Customer Relationship Management and accessible call centres in place readily accessible and functioning efficiently. For instant, most progressive banks have 24-hour toll-free help lines to assist customers with their banking transactions.

Gatekeeper

The gatekeeper is the antithesis of the information gatherer: he blocks or filters information which might limit the choices of the decider. This takes place mostly in institutional consumers. They might be the secretary, security guard, purchase manager, etc.

Thus, for an insurance advisor to make sales calls to an office, he has to convince the Security guards, secretary etc. In a consumer-decision process, the gatekeeper does assert in the initial

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choice-making: the parent using child-lock switches in a TV, preventing the viewing of certain channels; intercepting certain holiday brochures for viewing and evaluation - like the ones on Goa - as he may not relish the family having a beach holiday, with all the liberal western influences on the family! The marketer can only use his persuasion to win over such people. The difficulty lies in identifying them in an organization; it is comparatively easier amongst individual consumers.

The Devil's Advocate

This person is the eternal 'nay-slayer', disagreeing with the service offer, its benefits or to its consumption. The marketer can only ignore the DA at his peril: if he is very influential, then most service offers are out of bounds of decision-making. Consumption becomes minimal. The marketer should convince the DA fuly, if he hopes to make a breakthrough.

Decider

He is the person who has to take the final decision to buy or not to buy. He has to decide on the priority of purchase, decide on the number of users and beneficiaries of the service consumption.

Buyer/Purchaser

The buyer or the purchaser performs the routine task of completing the last formality, making the payment, receiving the delivery and so on.

User

This is the person for whom the purchase decision was taken. He may not be the person who looks the final decision. The implication is that the user and the decider are separate. This separation of the two decision-making units mostly takes place in institutional purchases and B2B transactions.

3.2.5 Decision-making Process

The Decision-making Process (DMP) is triggered by some need arousal that is not immediately satisfied, as explained in Figure 3.2.

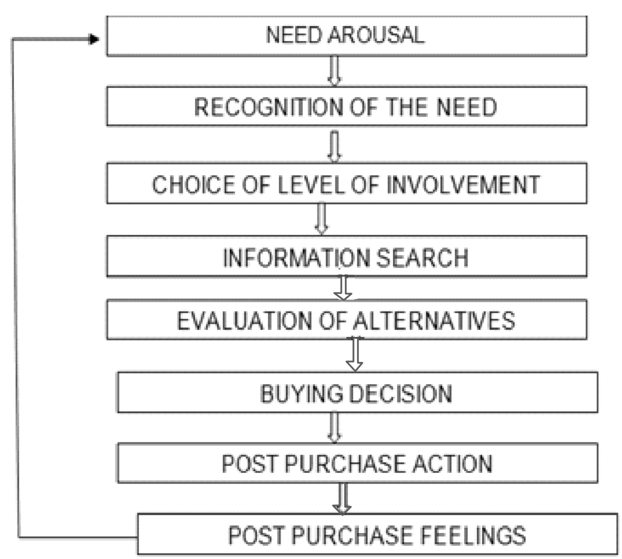

Fig. 3.2

A service marketer should understand the buying process and the different influencing factors. He should analyze the following:

- The involvement level of the buyer
- The different decision makers of the buying process
- The different alternatives at the disposal of the buyer
- The buyer's criteria, which impinge upon the decision making process
- The methods of information search and subsequent evaluation thereof.

Need Arousal

To the customer, the service-buying process implies the service transaction and experience, while for the marketer it is the service encounter and the service delivery. The buying process is triggered by some unsatisfied need felt by the customer. The need could be aroused by a variety of sources or stimulus called cues or drives, as elaborated in the 'black box' effect model:

The cue is both commercial and social oriented. Commercial cues are controllable by the service marketer and can be intelligently engineered to arouse the customers' needs. They consist of the following:

Service product: This seemingly may not be possible in services because of their intangibility. But brands and other tangibles can be suitably used to serve as a cue. Thus HDFC can use its accounts as the cue, while SBI can use its components of brands (name and image) and services to stimulate need. This is one reason why travellers cheques come in a handy little wallet a tangible by product of the service transaction that out last, it, and one that serves as a pleasurable (and useful) visual reminder long after the service has been utilized. The more established the service, the more effective is the cue.

Price: Price is communicative, and from it, the customer perceives a lot about the offer's value, quality and positioning. A rebate in premium offered by an insurance company, might act as a cue. Even without any discounts, the prevalent price level conveys to the consumer a lot about the service offer's quality, target and value to the consumer.

Display: In retailing, visual merchandising is used to great effect in triggering needs, The customers are allowed to feel empowered in selecting the merchandise themselves, instead of asking for them, as was prevalent in the old format of retailing. Display of intangibles may not be possible, but other visualization cues can be used. For example, insurance companies use beautiful and creative posters, of various plans offered by them, to as the cue.

Signage: This is a component of fu service brand, which targets the cognitive part of the customer's brain—enhancing their knowledge and their ability to recognize. The recognition stimulates the need for service consumption. Signage is used in outdoor advertising.

Advertisements and Promotions: They are one of the most effective cues, successfully stimulating need. The content - including copy and visual - execution seeks to arouse the need for the service in the customer. News of any promotions - discounts, freebies etc. - might also trigger the need.

Distribution outlets: This is a major source of cues - especially in retailing. In service outlets, the design, ambience, and atmospherics are examples of cues. Private banks like ICICI Bank, HSBC Bank, ABN Amro Bank have excellent facilities.

Social oriented cues are from word-of-mouth and through reference group influences. Due to the inherent intangibility, services are especially prone to word-of-mouth influences and are susceptible to need arousals, like movies and plays.

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The **drive** is physical. This takes place when a consumer's senses of smell, vision, touch-and-feel, taste and hearing are assaulted by the presence or absence of the service product. The irregularity of health in old people might arouse the need for health insurance service ices. Similarly, while window-shopping, the physical touch and feel of a particular dress or fabric might trigger the need for the particular product. Fragrances stimulate the olfactory (smell) sense and evoke memories/reads at a subconscious level of the mind. Thus display and trials stimulate the need response of the consumer.

What should the service marketer do?

The service marketer should recognize the of both cue and drive and use them appropriately in his marketing programme should use all his marketing mixes and influence social forces as possible cues and enhance the drives.

Recognition of the Need

There are two types of need recognition: primary and secondary need recognition.

Primary needs: The consumer categorizes his need by occasions, urgency and priority of purchase. He recognizes the need to purchase, say, clothes for Diwali, a watch as a wedding gift for someone, replenishing the larder, an insurance plan for saving on taxes, a dinner or a concert. Service marketers get an opportunity in influencing need recognition needs recognition by displays in their retail outlets, advertising and promotions. Even visual merchandising can be used to great effect by retailers in stimulating demand.

Secondary needs: There are follow-up needs to primary demands which could include both goods as well as services. A need for an engineering education would be followed requirements for calculators, a PC, savings accounts if the student is staying in a hostel, clothes etc. A desire for a vacation might trigger the need for new Iuggage, casual clothes or a camera.

The service marketer should be savvy enough to recognize primary needs and be ready to service ice secondary needs. Citibank was quick off the mark in offering a personal loan when SBI Life Insurance and Om Kotak Insurance offered single premium insurance and pension policies. By themselves, the insurance and pension products were very attractive what was a damper for the consumer was the large amount (over one lakh rupees) for the single policies. But with the possibility of this personal loan, (secondary need. many decided in favour of the policies (primary need). Retailers tend to bundle merchandise into complementary consumptions and provide cues for further purchases. A total merchandise package is offered and the retail staffs are trained to make suggestions to the customers for additional accessories. Thus a person in her visit to the bank for opening of savings account will be plied with cues and prompts for further service credit cards, debit cards etc. A person who gets a general insurance for himself will be prompted to take advantage of a package deal which also includes a child insurance or vehicle insurance plan.

Level of Involvement

This an indication of the amount of time and effort invested by the consumer in the

decision- making process. If the consumer is not confident on the purchase decision or is not aware of the product, brand or even the service Category, he will spend more time in the decision-making process. If he perceives the offer to have complex features, fears more risk in the consumption, or if there are more number of users, then he is bound to take more time in deciding.

Most financial decisions Iike savings, investments and insurance have complex features and riders. The insurance advisor has to be patient in answering all queries, persistent in his marketing and follow-ups, and extremely effective in his communication, so that the consumer is clear about the offer and its benefits. Similarly, decisions for vacations take more time for a family, as the number of users is large. Decisions for time-share resorts take a longer time to make than a one-off holiday, because the consumer perceives financial risks, longer lock-up of capital and irreversibility of the deal.

The service marketer should resort to branding, and standardization and increase awareness and usage to make people less involved. This will lower the time taken in decision making and reduce marketing time and costs for the marketer.

Search for Information and Identification of Alternatives

In this part of the decision-making process, the customer spends time and effort in

Searching for information and alternatives. For routine purchases, the customer will know the brand, and service product and be aware of its benefits. He would then spend less time in his search for information and alternatives for satisfying his needs. Brands that come to his mind and those he recognizes during the purchase are called the evoked set. But there is the consideration set which comes out of suggestions through friends, colleagues, advertising, etc. Service brands that come under the former set have more marketing advantages.

If a customer is not able to find the required information during his search - and if the process entails high involvement- then a certain offer will not be part of his decision

making and the marketer loses out and suffers from lost opportunity. Thus such marketing initiatives like call centres, websites and Customer Relationship Management (CRM) have been undertaken to give all possible information to the current and potential customer. The service marketer should take care to be a part of the consideration set, too, so as not to miss out on the benefits.

If the customer is allowed to compare, he becomes empowered and takes a more rational decision. Therefore many service marketers try for settings that will prevent the customer from making a comparison. Exclusive authorized retail stores are one such example, which will make comparison between offers difficult for the consumer. Similarly, direct marketers get the advantage from the customer's inability to compare their offer during a service product demonstration and personal selling. The customer might end up paying higher prices for the service offer without knowing that a cheaper alternative was available. The flip-side to of this strategy is that the customer might have negative feelings for such retailing initiatives and may not patronize such outlets. The service marketer might lose out on the customer who might prefer multi-brand outlets.

Evaluation of Alternatives

The customer for the service starts making a comparison of the attributes of the alternatives based on his criteria of decision making. The criteria could be features of the offer like price, benefits - core and peripheral - reputation, and performance expectations. He then makes the comparison based on such subjective parameters as perception of brands and his own attitudes. The customer ranks his preference among the alternatives which tend to satisfy both functional and rational needs related to the performance of the product as well as psychological or emotional needs that goes with his self-image. At this stage, the customer has almost made a decision from the information gathered, to buy the service offer, decline or delay the-purchase. For example, with the end of the fiscal year, an income-tax payee would search for different alternatives of tax-saving instruments. He would then rank his preference of such alternatives as insurance, home loans whose interest components are eligible for tax deductions, Infrastructure Bonds, Unit Linked Insurance Plans (a product of Unit Trust of India), National

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Savings certificates, etc. He would then buy a particular service offer, decline any of them or delay the purchase, hoping to come across better instruments.

Decision

With the overall evaluation as decision-making criteria, the customer takes either of two decisions: to buy or not to buy. The decision to buy would include the offer, the most preferred brand, method of purchase (buying a book on the net, through catalogues, offline in a book-store or from the pavements)'and payments (cash, by cheque, credit cards or through a loan).

Purchase Action and Other Decisions

What other decisions can possibly be left for the consumer after the decision to buy or not to buy? There is the purchase action and other decisions. In insurance, this may take the form of available options, like child plans, health plans, different premium plans etc. A customer might take a decision to go for savings accounts with a particular bank but his level of satisfaction at the reception desk and other tangibles attached might influence his decisions.

Post-purchase Behaviour and Feelings

This reaction takes place during and after the purchase and usage. The customer has two types of reactions: pleasure and pain. When the service delivery is below expectation, the customer is disappointed, dissatisfied, and experiences 'pain'. He is literally pained at the poor service delivery.

If the service delivery is as expected (different from 'promised') by the customer then the customer is satisfied. But if the service delivery. is beyond expectation, the customer is 'delighted'. The service marketer should concentrate all his attention on customer delight to retain the customer - which is 3 to 4 times less expensive than customer acquisition.

Check Your Progress 1

Fill in the blanks:

1. Normally, if a service has high risks involved, it would be a............... involvement service.
2. A.....................is a person who is totally against purchase of a certain service.
3. If a person restricts you to view advertisements of certain insurance brands because they are unsuitable for viewing, he is a...
4. A person wants to open savings accounts. He has recognized 3 options-SBl, PNB or HDFC. It represents his..
5. A person can decline or delay the purchase of services of a particular brand of insurance when he is in .... stage.

3.3 FACTORS INFLUENCING CONSUMER BEHAVIOUR

3.3.1 Risks

There are four types of risk and they are a permanent aspect of services:

1. **Economic ricks:** The purchaser might debate about the value and concomitant benefits of the offer. Both value and benefit cannot be assessed by the consumer beforehand due to the fundamentally intangible nature of the offer.

2. **Physical risks:** Some services may be perceived to be dangerous or causing bodily harm. For example, in massage, physiotherapy and laser surgery for eye/vision correction, consumers might have negative feelings, fearing permanent eye damage However, in banking and insurance there is no such physical risk involved.
3. **Psychological risks:** This risk is perceived by the consumer when he feels that the purchase may not reflect his self concept, personality or status that he wishes to project. The customer might fear losing his money if he is invested in mutual funds, fear that he might not be able to repay the loan or premium on time, or using anything but a prestigious brand of credit card.
4. **Performance risks:** When effectiveness of offers cannot be assessed, customers, suffer from performance risks. Services suffer such risks greatly because of intangibility. If investment in a particular mutual funds or insurance policy turns out to be bad purchases, they cannot be retrieved.

All these risks have to be minimized through communication promotion, reliability and consistency of service or expected customer service.

3.3.2 Situational Factors

These are the different situations that the consumer finds himself in during purchase. The situations influence his buying Behaviour. For example, a newly married couple may look forward to open a joint account, or to fund higher studies of children parents have: apply for an education loan. The place where a consumer buys is also very influential his decision.

How a person buys also influences his decisions. Bad network at the website of the, bank or insurance company or error in ATM machines of banks may lead to resentment: among customers. On the other hand introduction of internet and phone banking has given service consumers a latent desire of getting their transactions done with less hassles and better experiences. So when SBI announced online banking and payment systems, there was overwhelming response from the harried customers-the relief soon turned to incredulous delight when they saw that the system was simple, effortless and efficient.

3.3.3 Information Sources

There are two kinds of information sources that influence the DMP: those that are Controlled by the marketer through its marketing mixes, and those that are influenced by the external, social forces like word-of-mouth and reference group sources.

Company-controlled stimuli: These are service product, price, promotion like advertising, public relations, personal selling and sales promotions, physic: evidences etc.

Socially controlled stimuli: Due to their intangibility, services are especially affected by rumours or word-of-mouth publicity. Students often flock to a bank if that they are giving special facilities to students and getting the savings account open at Zero- balance.

3.3.4 Social Influences

Reference Groups

Reference groups are a point of reference for consumer in making their buying decisions. They are the social groups with which people interact. It is through this interaction that a consumer is influenced.

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Different Types of Reference Groups

There are two types of reference groups, and they have different influences over the customer

1. **Primary reference groups:** A person has regular but informal interaction with them. They include friends, family, office colleagues, neighbours, etc. They exert informational and comparative influence over the consumer. The family itself is a large and influential reference group, which can be further studied as family of orientation (parents, siblings and some relatives all living together like a joint family) and family of procreation (only the immediate family of husband, wife and their children).
2. **Secondary reference groups:** Consumers have irregular but formal interactions with these groups. They consist of religious groups (satsangs), social (kitty parties, Rotary Clubs) or sports clubs, and trade (Confederation of Indian Industries) professional bodies (association of lawyers).

Family and Household

A family is a group of two or more persons, related by blood, marriage or adoption that resides together:

- The nuclear family is the immediate group of father, mother and child (or children) living together.
- The extended family is the nuclear family, plus other relatives, such as grandparents, uncles and aunts, cousins and in-laws. It is a joint family or the Hindu Undivided family.
- The family into which one is born is called the family of orientation.
- The family that is established by marriage is called the family of procreation.

A Household describes all persons, both related and unrelated, who occupy a housing unit. Thus a "mess" for bachelors or a boarding house or hostel, as also an old age home, is a non family household.

The importance of the family/household unit in consumer behaviour and services arises for two following two reasons:

- Many service products are purchased by a family/household unit.
- Buying decisions of individuals may be heavily influenced by other members of the Family/household.

3.3.5 Family Decision and Spousal Role

A service marketer has to be alert and sensitive to the ground reality of differential, influences in shopping and buying-decision making in a family by the spouses. The relative Influence of the spouse and other family members in the purchase of goods and service, and other decision making greatly affects the marketing of services. The questions for' which he should seek answers are:

- Which of the spouses is more influential for which offers?
- And the influence is by how much?
- How does this vary by stages of decision making?

Taking a simple model of a family consisting of husband and wife as decision maker, the service marketer comes across four types of decisions. For the sake of simplicity, the children's influence is not taken into account. The model is based on two factors:

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- The relative influence of husbands and wives over different purchases, and
- The extent of rote-specialization in each offer category. This implies that spouses are fully aware of certain purchase offers and within their family there is clarity of their roles in decision making for those offers. neither of the spouses are aware,nor are their roles clarified in the purchase process clarified.

Autonomic decisions: Here the spouses are empowered by each other to take decisions. This is due to their full awareness of the purchase offer, its category brands, feat functions and also their decision-making roles. Such decisions also take place when equal numbers of decisions are made by each spouse, but each decision is individually made by one spouse or the other. The spouses are very clear about their roles, that whether they are influencers, gatekeepers, decider, user or information gatherer or all them.

Husband Dominant: These decisions are taken mostly taken by the husband or are dominated his decision-makings. There is clarity in role specializations. Mostly decisions relating to finance savings and investments, insurance and technical products fall into this category.

Wife Dominant: Wives wife Dominant dominate those decision-making which pertain to purchases for the kitchen, for the daily needs, bedrooms, furnishings, her clothes, children's clothes, food, groceries, etc.

Syncratic (joint): these decisions are taken jointly by the spouses. This is due to the fact that neither of them is much aware of the offers, their features, quality, function and the full benefits. These kinds of purchases are very infrequent, make the spouses vary highly involved with the decision-making, and there is a higher perception of risks. The spouses also have less clarity about their roles and lack expertise in the offer.

An analysis of the husband and wife roles in family decisions will reveal that mostly service and other very high involvement products come under Syncratic as well as husband-dominated decision-making wife-dominated decisions.

3.3.6 Attitudes

The attitude of a consumer can be defined as simply an overall evaluation-a learned predisposition to behave in a consistently favourable or unfavourable way with respect to a given object or even a retail store! Attitudes are an expression of inner feelings reflecting his like dislikes and, from a retailing perspective, as applicable to retail brands and store formats. Attitudes play an important part in determining a company's standing among consumers. In deciding at which bank to transact with, consumers will typically select the bank that is evaluated most favorably and to which they are predisposed.

Usefulness of Attitudes

- Attitudes can be quite useful in building an understanding of why consumers prefer a particular store or format.
- Attitudes can be used for judging the effectiveness of marketing activities-say, an advertising campaign designed to increase sales by enhancing consumers' attitudes. But the sales can be affected by many other factors. Thus, it is possible for advertising to have a positive impact on attitudes without influencing sales. If the ads fail to have the desired effect on attitudes, then the campaign will have to be revised.
- Attitudes can help evaluate marketing actions even before they are implemented-say, a packaging decision- by a feed forward.
- Attitudes can be used to segment markets-on how favourable consumers are towards the retail store and its brands-and choose target segments.

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- ***Products attitudes:*** Consumer's attitudes, say, towards health and fitness can have potent implications for many industries like cigarettes, liquor, fitness equipments, and diet foods.
- ***Persuasion:*** Consumers, attitudes towards health and fitness can determine its effectiveness.

Check your progress 2

Fill in the blanks:

1. Fear the people might ridicule you if you don't have a international credit card (HSBC or AEXX) relates to……………………………………………………risk.
2. Your college finance club comes under…………………………………reference group.
3. According to Davis and Rigaux Model, insurance decisions are ……… dominated.
4. Word of mouth publicity is a ………………………………………………stimuli.
5. Fear that health insurance policies might not cover all the aspects of health problems relates to……………………………………………………………risks.

3.3.7 Perception

Perception is the meaning that consumers ascribe to what they see around them. The meaning that given is influenced by.

- Past experience or learning,
- Preconceived notions, prejudice and assumptions,
- Expectations and personality.
- Family background, previous acculturation, values, beliefs and other social factors.
- Genuine knowledge and awareness.

Since no two people have 100% identical background, culture, intellect, beliefs and other social factors etc., no two perceptions can ever be 100% identical.

Perception is a part of information processing done by any consumer where stimuli are perceived, transformed into information, and stored, information processing consists of exposure, attention, interpretation and memory. Perception about a service offers or any of its aspects is the key to service quality, the moments of truth, the imageries of the firm that go on to highlight its positioning statements in the mind of the customers and customers retention. The perception of the offers consists of factors both internal and external to the customer and as greatly affected by the following:

- The external communication made by the service firm.
- The quality of experience the customer undergoes on the service encounter,
- The pos-purchase feelings.

Internal factors are most of the time psychological and personal elements like motives and expectations that are unique to customers that affect attention and perception. The marketer cannot control them and they limit the effectiveness of service strategy. External factors are either the nature of the offer or its marketing mixes, which can be controlled b the firm.

External Factors

Size: the size of a stimulant like an advertisement in a newspaper, magazine or a billboard has a direct bearing on the degree of perception. Giant cut-outs, blimps (Zeppelin-like balloons, moored to the earth by cables, float above a stadium),and full-page advertisement are more attention grabbing, and threshold levels of receptivity to messages are higher, enabling viewers to spot them from afar.

Position: the position of the advertisement of communication as a stimulant also ensures its distinctiveness. If the ad is not positioned carefully, it might get submerged amongst the clutter of other communication. The front-page advertisement of the web portal indya.com was noticed by a large majority of the readers of times of India whole that of a insurance agent or channel hidden amongst the classified columns would be barely noticed unless a reader was specifically hunting for it. In study done by the author for possible hoardings or billboards. There is always a scramble for hoarding space at any prominent junction.

Movement: the human eye tends to seek and lock on to anything that has movement, even if it happens to be at the periphery of vision. It chooses to pay more attention to dynamic than static images. This is probably one of the more important reasons for the enduring popularity of TV as a medium of entertainment, as compared to books or magazines. Signboards have oscillating splits, simulating movement and getting more than one visual out of the display, while neon sign markers have long incorporated movement by means of sequential lighting of different colours.

Repetition: Repetition of a message not only ensures more audience but also helps memory retention and reinforcement amongst those who have been exposed to the message before. Repetition of the message also helps salespersons to clinch closures.

Intensity: To capture the attention of the audience, views and customers, all marketers use bright sound, psychedelic lightings, neon lights and glow signs.

Contrast: When most communication is in seamless flow of colour and patterns, human perception tends to notice contract images quicker. A checkerboard of black and white squares is an example of contrasting pattern. When print advertisements, mostly copy, are written in white on black, the market is resorting to contrast effect for better perception.

Colour: Colour pictures are mire noticed for their depth and variety then black-and-white communications, which are considered dull, monotonous, and understated…expect where such B&W creates a certain mood or effect. Some of the world's greatest photographs have been on black and white.

Directionality: The eye tends to follow the directions and leads given by elements in the stimulus like in racy advertisements.

Format: In a retail store, visual merchandising plays a key role in heightening perception about merchandise. With proper formats, arrangements and attractive stacking, the retailer can reduce competition for attention and achieve more sales.

Isolation: When the service market separates a stimulus object from other objects, making them distinctive, isolation factor works in enhancing perception. Mobile phone operator Orange once placed a full-page print ad in a weekly news magazine, consisting of only its orange colour square logo at the centre, using the isolation principle.

Novelty: Customer tend to notice any offer or communication that is different from what they normally tend to expect. Thus service products are designed to be novel (theme parks Esselworld and Water Kingdom) and so is their communication formats (signs of tour companies written in the sky through smoke released by aerobatic planes.

'Learned' attention-inducing stimuli: Consumers get attracted to certain stimuli as they have been taught and conditioned to react. Chattering students quieten automatically when they

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enter libraries, hospitals or a church. In the old mom and –stores, the doors were linked to bells, which signaled to the counter-sales person about the entry of a shopper, helping in making eye contact and giving personalized attention.

Attractive spokesperson: Using attractive models and celebrities can help get more attention. ICCI Bank got instant recognition and recall as the financial institution whose brand ambassador was the enduring matinee idol Amitabh Bachan. NIIT also got the same halo effect ager taking on chess wizard Vishwanathan Anand as their spokesperson.

Scene changes: Advertisements garner more attention than soaps on TV, which is seen more than moves. Quick change of scene causes hyperactivity in the brain. The music channels like MTV and Channel-V have quick changing scenes most of the time, as their main audience of teenagers and youth have short attention spans.

Internal Factors

1. **Selective attention:** Attention span of customers is limited. People tend to listen to or see only those communications of services that they are interested in and want to listen to or are capable of absorbing. They do not pay attention to all the messages and neither to the whole messages; those they do, tend to satisfy their needs.
2. **Selective exposure:** Certain messages of service communication might go again the preferences and beliefs of the customers. They tend to avoid such encounters by means of selective exposure, almost like censorship. Some of the more often used selective exposures are.
   (a) **Flipping:** Readers if magazine and newspapers tend to flip through the pages and either moss advertisements of so not get to see them on detail.
   (b) **Zipping:** Viewers tend to use the 'fast-forward' facilities to skip advertisements in pre-recorded programmes.
   (c) **Zapping:** the remote control has empowered viewers to switch channels of their TV when they are disinterested in either the advertisements or the programme. The solution that has been used with certain effectiveness to overcome this kind of selective exposure is road block, booking advertising space and time simultaneously in multiple channels.
   (d) **Muting:** this is the most practiced selective exposure method of lowering or switching off the volume during advertisements selective.

   Another reason for people to avoid messages is due to their shree volume. We are all suffering from the information overload and it is humanly impossible to get exposed to all the messages. Like the confidential secretary who screens all messages and appointments, the viewer acts as his own 'gatekeeper'.
3. **Selective reception, comprehension and retention:** After selectively receiving messages, the viewer understands only very specific and selected parts of it and is willing to or capable of storing still further selected parts-especially those that he prefers. The view is most likely to remember, for a very short time large amount of information, which mostly consists of facts, figures and formulae.

3.3.8 Motivation

Motivation originates from the Greek word moyere meaning, "to move". The dictionary definition is derived from 'motivate', which stimulates interest or, due to compelling forces, causers a person to act in a certain way. It is also linked to the word' motive', giving strong rationale or seasons for certain actions movements . Motivation concepts are one of the chief influencers of service consumption and determinants of consumers, buying Behaviour.

For example, a banking marketer world be keen to know the different motivators for a customer to use credit cards and use the insight to effectively market his retailing services:

1. **Diversion:** Consumers are increasingly resorting to shopping as a form of recreation, entertainment, and stress buster from their daily drudgery. Plastic money is increasingly being used.
2. **Role playing:** Shopping becomes the perfect setting for, many of the decision-making units (DMU) to display their knowledge, and aid in the evaluation of alternatives.
3. **Learning about new tends:** 'shopping around or window-shopping becomes a convenient way for consumers to upgrade their knowledge about offers, promotions and benefits.
4. **Self-gratification:** Shopping is used by consumers to give themselves a treat, enhancing their self-worth and self–respect psychiatrists are increasingly approving shopping as a way to get away from boredom and loneliness. Modern format retailing has taken advantage of this aspect and has successfully empowered the customers by enabling them to handle the merchandise and making their choice.
5. **Sensory stimulation:** The 'atmospherics' inside a store, which including the lighting, music, visual merchandising, scents, etc., in addition to the handling of the merchandise, is a strong stimuli sought after and enjoyed by the shoppers.
6. **Physical activity:** this may most be true so far in India, as mega retailing just taking off. But in the west, mega stores like Wal-Mart, Carrefour and Tesco usually have huge establishments and are mostly situates in the suburbs. Customers are forced to walk around a lot and many choose to shop as a form of exercise.
7. **Social experiences outside the home:** People go to shopping centres to meet friends , see 'sale-purchase' notices, simply watch people, or just enjoy a change of scene.
8. **Communication with 'like-minded' people:** Specialty stores selling music (Planet M, Rhythm House), sports goods, books (Crossword, Strand), and Do It Yourself (DIY) allow shoppers to interact with each other and store personnel.
9. **Peer group attraction:** Certain specific stores with their associated imagery and brand value makes people patronize them, making them hope that in the process they can be linked to their desired reference groups and people of similar status, interests and attitudes.
10. **Status and authority:** Many shoppers enjoy being fawned upon, 'waited on' and showered with personalized attention during their visits.
11. **Pleasure of bargaining:** Shopping around entails haggling and bargaining and many enjoy the challenge and pastime.

3.4 LET US SUM UP

The marketer can try to stimulate he consumer but is not sure which way the buyer of the services would react: to buy or not offer. All that the marketer can study are all the external stimuli acting on the consumer, and his responses. The customer is both an individual as well as an organization. Although both might buy the same services offer, the marketing to acquire the customer will be totally different. The customer mostly bus goods, services, people, places, events, organizations, ideas, information and experiences. All these generally fall under goods and services. But the offers that they buy can be: High involvement offers and low involvement

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offers/Impulse offers a service consumer can take up various roles like initiator/influencer, information gatherer, gatekeeper, devil's advocate, decider, buyer and user. While purchasing any service, a consumer goes through a process: need arousal, recognition of the need, choice of level of involvement, search of information and identification of alternatives, evaluation of alternatives, buying decision, purchase action and post purchase feeling. The buying process is triggered by some unsatisfied need felt by the customer. The need could be aroused by a variety of sources or stimulus called cues or drives. The drive is physical. This takes place when consumer's senses of smell, visions, touch-and-feel, taste and hearing are assaulted by the presence or absence of the service product. The level of involvement is an indication of the amount of time and effort invested by the consumer in the decision-making process. If the consumer is not confident on the purchase decision or is not aware of the product brand or even the service category, he wills spend more time in the decision-making process.

Brands that come to his mind and those he recognizes during the purchase are called the evoked set. But there is the consideration ser which comes out of suggestions through friends, colleagues, advertising, etc. service brands that come under the former set have more marketing advantages. The customer for the service starts making a comparison of the attributes of the alternatives based on his criteria of decision making. The criteria could be features of the offer like price, benefits-core and peripheral-reputation, and performance expectations. The risks associated with purchase of services are economic sick, physical risk, psychological risk and performance risk. All these risks have to be minimized through communication, promotion, reliability and consistency of service or expected customer service. Reference groups are a point of reference for consumer in making their buying decisions. They are the social groups with which people interact. It is through this interaction that consumer is influenced. A household describes all persons, both related and unrelated, who occupy a housing unit. A "mess" for bachelors or a boarding house or hostel, as also an old age home is a non-family house hold. A service marketer has to be alert and sensitive to the ground reality of differential influence in shopping and buying –decision making in a family by the spouses. The relative influence of the spouse and other family members in the purchase of goods and services and other decision making greatly affects the marketing of service. the attitude of a consumer can be defined as simple an overall evaluation- a learned predisposition to behave in a consistently favourable or unfavourable way with respect to a given objects or even a retail store. Perception is the meaning that consumers ascribe to what they see around them. The meaning that is given is influenced by past experience or learning, preconceived notices, prejudice and assumptions, expectations and personality, family background, previous acculturation, values, beliefs and other social factors and genuine knowledge and awareness. The definition of motivation is derived from 'motivate', which stimulates interest or due to compelling forces, causes a person to act in a certain way. It is also linked to the word 'motive' giving a strong rationale or reason for certain actions or movements. Motivation concepts are one of the chief influencers of service consumption and determinants of consumers, buying behaviour.

3.5 KEYWORDS

- ***Initiator:*** Person who gets the idea of consuming/purchasing a service
- ***Gatekeeper:*** a person who blocks or filters information
- ***Devil's advocate:*** he completely disagrees with the service offer
- ***Cues:*** sources by which needs are aroused
- ***Evoked set:*** brands which a person recognizes for a service purchase
- ***Consideration set:*** brands which are suggested by others

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- ***Performance risks:*** fear of non-performance of the service
- ***Reference groups:*** point of reference that influence purchase decision
- ***Syncranitc decisions :*** decisions that are taken jointly by the husband and wife
- ***Attitudes:*** feelings and beliefs of an individual
- ***Perception:*** meaning ascribe to what we see around us
- ***Motivation:*** rationale or reason for certain movement or action

3.6 QUESTIONS FOR DISCUSSION

1. Critically analyse the Black Box Model keeping in mind the banking industry.
2. Insurance services are high involvement offers. Explain the statement in light of features of high involvement offers.
3. Explain the different roles that a person assumes while looking to apply for a home loan.
4. How can an insurance marketer create need for his service offer among people? Explain with examples.
5. In service delivery, noticing the post purchase behaviour of the customers is very important. Why?
6. What are the risks that can be associated with credit card marketing?
7. Discuss the impact of reference groups on banking and insurance marketing. Comment on the role of service marketer here.
8. What can a bank marketing professional do to ensure that the bank enjoys a healthy Image and people perceive it well?

3.7 SUGGESTED READINGS

- C Bhattacharjee, Services Marketing, Excel Books, New Delhi
- Christopher H Lovelock, Services Marketing, Third Edition, Us: Prentice Hall International
- Valarie A Zeithaml and Mary Jo Bitner, Services Marketing: Integrating Customer Focus across the Firm, Third Edition, Tata McGraw Hill, New Delhi
- Balachnadran S, Customer Driven Service Management, Response Books, New Delhi

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UNIT 4: PRODUCT MIX

Structure

1.0 AIMS AND OBJECTIVES

After going through this unit, you will be able to:

- Concept of product
- Product life cycle
- New product development process
- Concept of branding

4.1 INTRODUCTION

A product is an offering of commercial intent having tangible and intangible features that goes to satisfy needs, wants and desires of the consumers. A product thus becomes a tool by which an organization achieves its strategic goal. Some examples are a car, soap, a book, a sofa, etc. the consumer gets his various needs satisfied by the product.

The service product is an offering of commercial and not-for-profit intent, having intangible and tangible features going on to satisfy various needs, wants and desires of the customers. For example, the credit cards have got various intangible features (convenience, flexibility, maximum retail acceptance, insurance, contests, etc). The tangible features of a credit card could be colourful mailers, complimentary diaries, calendars and other free gifts price discounts etc.

Thus in the marketing of services, unlike that of goods, no exchanges take place as the product is intangible. The service marketer performs a deed for the buyer.

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4.2 TOTAL PRODUCT CONCEPT

Theodore Levitt explained that a product was now no longer isolated goods offering it now was a combination of three products:

Core products

This had the very basic features and was the main reason for consumption. For example, a motor cycle as a core product should have engine, petrol tank, wheels, handlebars and a seat. A product with such features was necessarily at the introduction stage of the life cycle. At this stage, neither was the market/consumer nature nor was there much competition. This implied that consumers did not really recognize the depth of their demands nor did they have much choice in goods. It implies that every service product' should provide a basic function - which goes on to solve a customer's problem and satisfies his need. Without the 'core' product, no service offer would exist. It is only the core product that will lure potential customers, offering benefits to them. For example with nearing middle age, a person is concerned about financial security post-retirement. His problem can be solved by the following solutions: fixed deposits in reputed banks, fixed deposits with companies, mutual and pension funds, shares of private companies, and government securities, bullion, land and other properties, etc. They all promise to. Offer the same core product - security and growth; and supply the desired benefit of relieving the person's anxiety. Which of these offers should the potential customer go for? The final decision of the potential customer will largely depend upon more than just the core

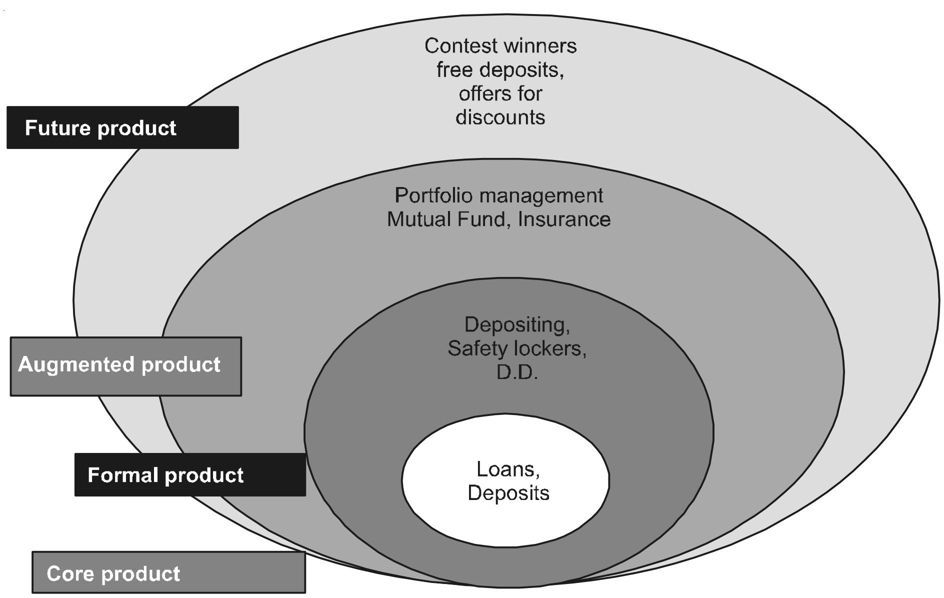

Fig. 4.1: Theodore Levitt's Total Product Concept

Examples of core service product attributes:

- Functionality
- Key benefits

Formal Product (or the Actual Product)

Once the first version of the product was launched and was made available to the market, technology and manufacturing/business know-how started permeating down to many players. This resulted in lots more competition and therefore lots more choices for the consumer.The

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formal product consisted of the tangible features associated with the core product. They were added on to the core to deliver desired benefits effectively. They became important ingredients for the marketers to differentiate themselves from the crowd. In the example quoted above of various financial security offers, following benefits could accrue:

- Fixed deposits in reputed banks, especially government owned, will give steady returns with security and guarantee with the added advantages of easy liquidity through premature encashment and choice of the service branches in close proximity;
- Fixed deposits with companies will give higher returns than banks
- Mutual and pension funds will promise to give higher returns, growth;
- Shares of private companies will promise to give higher returns by way of growth in book value, dividends, bonus shares etc.;
- Government securities like National Savings Schemes and Kisan Vikas Patra will give guaranteed returns, tax savings, easy liquidity;
- Bullion will give returns, secrecy and easy barter;
- Land and other properties will promise to give rock solid safety, growth etc.

Some example of formal/actual product attributes:

- Features
- Packaging
- Colour
- Accessories
- Texture
- Raw materials
- Size
- Design
- Taste
- Small

Augmented product (or the Extended product)

With further competition, marketers sought more differentiation and added more features/ attributes to the original product. At the third level of the product, the features were all more and more intangible and they were all services. This time, they added guarantees/warranties, customer education and training, different payment options, installations, home deliveries etc. The intangibles were offering mostly psychological benefits to the consumers, with the objective of enhancing the value of the core and the Formal/actual product.

Some examples of extended/augmented service product attributes:

- After sales service
- Delivery
- Guarantee
- Returns policy
- Styling
- Brand name
- Corporate identity

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- Credit
- Repairs
- Spare parts
- Courtesy
- Advice (24-hour help-lines, usually toll-free)
- Training
- Corporate ethics

Example: In Medical insurance, the core product would be coverage of risk, expected product would be choices available and reasonable rates and augmented product be smart cards and different schemes available.

4.3 CREATING A PRODUCT RANGE

The service firm should be in a position to offer a wide range of products. This will enable them to get more customers and satisfy their wide-ranging needs. The wider range would also enable the firm to be more competitive. A new service firm might, to begin with, offer only one product.

But some service firms use their range of offers (or the lack of it) as a strategy. For example, State Bank of India offers the entire gamut of retail banking service like personal banking, credit cards, home loans, personal loans, small business finance, large institutional finance, international banking, agricultural banking, insurance bancassurance, etc,

The complete bouquet of all offers of a firm is called Product (or Offer) Mix. It isthis set that a service firm can offer the maximum choice to its customers and enhance its strength in the market.

How can a service firm increase its product mix to get the best possible response from the market? It can do so in the following three ways:

1. By creating a service product line (new product development),
2. By increasing the number of service offer items within each product line (length), or
3. By increasing the number of product liner (width).

A Service Product Line can be explained as a group of closely related offers, targeted at the same type of customers, having the same end use. For example, a bank having - twenty different types of mutual fund schemes would fall under one product line. ‘offers bancassurance products, then the latter will fall under a different product line altogether (insurance), having different end use and different types of customers with different needs. Very simplistically, the different brand names that are available under particular product line (or the length of the service product mix) can be an indication strength of the service product line. Thus,

- SBI Mutual Fund has over twenty-six different basic offers, like Magnum Children’s Benefit Magnum Gilt, MSFU Pharma etc.
- HSBC Mutual Fund has over fifteen schemes like Gilt Fund Long Term, MIPRegular, Income Investment, etc.

The breadth (or the width) of the product mix of a service firm refers to its different business lines. As mentioned before, certain service firms specialize in one or few product lines (i.e., their breadth is less) while others have deliberately spread themselves wider to cover more business areas, trying to satisfy variety needs of the market. In the case of the tatter,

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sometimes, they may be addressing themselves to an entirely different audience. For example, ICICI, the country's largest Private sector bank, has diversified into insurance (ICICI Prudential and ICICI Lombard), Information technology (ICICI InfoTech), home and personal loans etc.

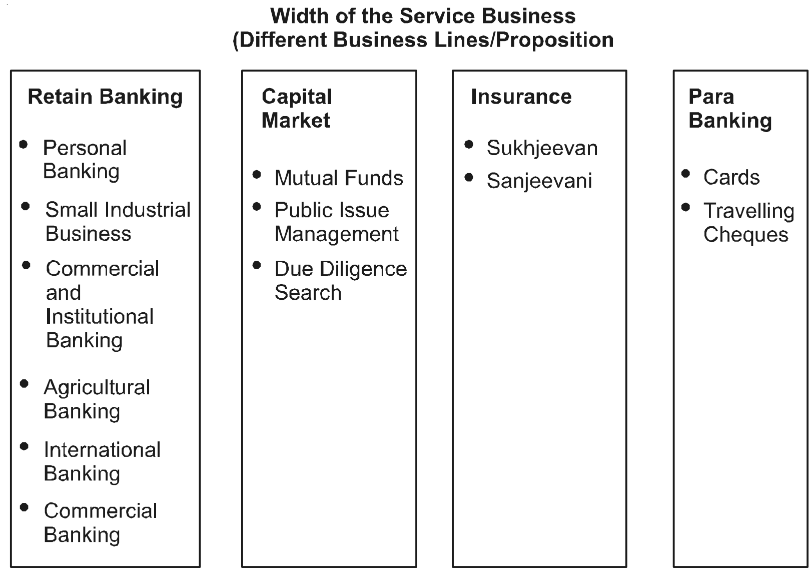

Fig. 4.2: Service Product Range of State bank of India

4.4 PRODUCT LIFE CYCLE

A service offers goes through stages of slow acceptance, surge in popularity, steady sales and sometimes drop in sales. The drop in sales can be due to many factors including better substitute offers, product obsolescence, changing preferences of the consumers, etc. for examples, in Mumbai, and other metros, in the late nineties, there arose a craze amongst the youth for pool parlors, that started sprouting in every nook and corner of the Cities; entrepreneurs, it seemed to be a jolly good idea: minimal capital and interiors, Small space, with the only fixed capital requirement being the pool table, cue sticks, balls, Air conditioning (sometimes even that was dispensed with), bare furniture, etc., taking on the form of afad. But its flameout was just as fast as its rise.

It become imperative for the service marketer study these varying patterns of sales growth over the lifetime of the offer. A useful model for such study that evolved to satisfy an analyst's need was the concept of the service product life cycle (PLC).

With the simple comparison to the stage of human life, plc implies that service also move through easily identifiable compartments of the time and have different characteristics. It greatly helped the service marketer to plan for the appropriate marketing initiatives and responses during specific stages of a service offer, s life span.

Characteristics of a Typical Offer/Service Product Life Cycle

It is the different stages that the product goes through during its cycle of birth, youth,

maturity, decline and death/rebirth. The marketer can attempt at a revival and therefore it's called a life cycle.

Conception/Incubation: This is the incubation stage of a service product, called New product development. It consists of the complete activities form ideation, research and development and product testing.

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Introduction: This is the stage soon after the launch of the service offer. The public at large is not fully aware or exposed to the offer. Sales growth or as option by the market is slow. The potential consumers display uncertainty and resistance to any new product that are not tried and tested.

The service firm would be incurring heavy expenditure, without any surge of revenue, only for building up awareness through different types of promotions. Unlike firms dealing in goods, service markets do not have to go through the expenditure of cost of production, storage and inventory- not unless they have sizable tangible component on their offer (like restaurants). Neither would they have to both about such cost drivers as full utilization of production facilities or the lack of economies of scale at the introduction stage. Never the less, at this stage, the cost of the offers is high and only adroit cash flow management can take the service firm through to the next stage of the product life cycle.

Growth: There will be a surge in demand for the service offer when customers make repeat purchases and potential customers come in due to recommendations made by the formers and by the generally positive publicity floating around them .it is to be noted that the peak of the profit curve does not coincide with the peak of the sales curve. The reasons are due to normal market dynamics. Surging sales, high voltage publicity, increasing awareness and profits are all indications of success. But success breeds imitators; direct competition enters the fray, hoping to harvest from the successful formula. To beat them, the service firm has to fight in two ways: spend more money on brand promotions like advertisements and publicity and by offering prices cuts. Although effective on allowing down the onslaught of completion, the added expenditures cut deeply into its profits.

There is a 'bandwagon effect with the increase in sales, size of the consumer market and number of competitive players. With increase in market volumes and competition price tends to drop. The service has to invest on promotions to establish consumer price tends to drop. The service market has to invest in promotions to establish consumer attitudes, increase market penetration and accessibility through wider distribution reach.

Maturity: Sales at the maturity stage flatten and slow down. Most possible productions benefits are usually developed and the market has reached the dreaded point of saturation. There is now an obvious over-capacity, with more players in the fray. Price cutting becomes the norm for attracting customers. The shakeout had enabled only the strong players to be around. The cost of doing business increases and the market becomes stable. Sales growth can slow down to as low as zero indicating complete saturation of the market. At this stage, if any new player entered the market, they would only steal business from each other.

Most of the products available today are at this stage of the life cycle; many service offers are spread amongst maturity (supermarkets), early Growth (deep discounters) and introduction (e-retailing, e-auctions) stages. At the beginning of this cycle, profits are likely to be at their peak; there is an inevitable decrease as competition hots up and prices fall. Many small brands swiftly head for the next stage, decline.

Decline: In the decline stage, there is a down turn in revenues, customer acquisitions and retention. This could be due to a number of factors:

Direct competitors: could be doing a better job in offering the same service with more value. With increased number of private players in both banking and insurance industry, the competition has increased tremendously. Banks are like centurion bank of Punjab have taken the merger route to sustain themselves.

Emergence of substitute competition: The market could witness other offers that could give the customers the same benefits and satisfy their same need.

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Changing preference of the customers for the service offer or the category. The customers today want to do all their banking transactions on net itself, to avoid the hassles of going to the bank and standing in ling queues.

Technology obsolescence could make the service offer redundant with better service being offered from those equipped with the latest technology. All India radio (AIR), the state owned broadcaster has lost its audience to the high teach Frequency Modulated (FM) private players.

4.4.1 Marketing Responses to PLC

The primary use of life cycle theories is to predict the strategic marketing mix required at each of its stages.

Introduction

The marketer can make use of market penetration strategies by investing in promotions or making widespread entry through low price, and skimming strategies where short-team gain is the objective with high entree price. For service the marketer is more capable of moving in at high speed then the goods marketer, as he does not have to grapple with such problems of production, inventory, storage and logistics.

	PROMOTION	
Price	High	Low
High	Rapid Skimming	Slow Skimming
Low	Rapid Penetration	Slow Penetration

Fig. 4.3: Market Entry Strategies

1. **Rapid Skimming:** It is an expensive initiative combining high price and high promotion, directed at a low aware, low willingness-to buy marketer. This strategy is very useful if the market size and potential is very high and the like likelihood of the competition to quickly adopt and adapt to the offer is also very high. When a service firm has a short-term goal of profit maximization and increase in the sales volume, it can resort to this strategy. The target markets are the early adopters and innovators who do not mind paying the high price for the privilege of being the early users.
2. **Slow Skimming:** This strategy is used when the service firm is confident that it can recoup its investments in sufficient time. This could be due to lack of competition.

   (Public sector undertakings, services like airlines, telecommunication, etc., are some examples), requirement of heavy investments in technology and systems to compete, etc.
3. **Rapid Penetration Strategy:** If the service firm has long –team objective of being a market leader, market share and profit maximization, and if there white entry barriers like intensive competition, then this strategy is useful. ICICI Bank as also Korean firms like Samsung and LG entered India with their dreaded retailing, using rapid penetration strategy. The price of their offers is lower but there is high visibility in the media. Big Bazar, the discounter major has successfully used this strategy to mark its mark.
4. **Slow penetration Strategy:** When the market size is large, well aware of the service offer and sensitive to price but the competitive threats are almost non-existent, thus strategy is used. The long-term objective of the service form is to maximize sales or profits.

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5. **"Speed to market":** ICICI Bank made waves by moving in very fast with its retail banking products. So did the grocery chain of cooperatives in superstore format Apna Bazar. A slow entry would enable the competitors to bring out "me too" products - and quite possibly grab a large market share. With the capability to move in quickly, the service marketer can considerably reduce the lead time between product conception/incubation and product introduction. This is known as the marketer's and/or their product's "speed to market" factor. A necessary system for the service marketer to speedily consolidating his entry includes information integration, cohesiveness and synchronization of all management functions.

Growth

It is obvious that the Growth stage is a battleground for survival. It does begin with a highly optimistic 'Take Off' but ends with a bloodbath of 'Shake Out' with only the fittest surviving. The competition has got a chance to survive the shake out if they don't just copy the original but add innovative features themselves, attracting more customers and helping to enlarge the market base. With the market growing in size, all players could be accommodated and price war, in actuality a poison pill of a solution, avoided.

After achieving optimum awareness of the service offer, the marketer should go all out in developing customers, increasing service delivery capability to keep up with demand, increasing access and making distribution effective. This will enhance the brand value of the offer, which will become an important asset during the inevitable maturity phase of the life cycle. The advertising as a communication tool should explain the offer, emphasize is features and image and create favourable attitudes.

Any sluggish response by the marketer and the inevitable inability to meet supply and demand might result in lost opportunities and poor customer retention. Increasing the market share should be an important objective of the service firm, bearing in mind the evolving competition. At the end of the growth phase, it can sacrifice short-term profits by using reduced price to lure price-conscious customers.

Maturity

This stage will witness steady sales with frenetic competition and price war. The service products do not have any new innovations and the effort of the marketer is only to stimulate sales. The marketer, therefore, concentrates on maximizing profits, mostly, seeks differentiation, offers wider range of products and concentrates on building relationships and long-term commitments with the customers. Product line modifications and line extensions can be attempted here.

Decline

Michael Porter has suggested for a service firm four strategies to tackle their products in decline:

1. **Leadership:** When there is still potential in the market for profit exploitation.' service firm can invest in product support to strengthen it and emerge as a strong and competitive player.
2. **Niche:** The service marketer can analyze the total market, and identify certain specific segments that has potential for profitability and which can decay slower than the rest.
3. **Harvest:** The marketer is all set to totally exploit the offers. While no further investments are made, there is a serious attempt to streamline costs including reduction of attributes

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in the augmented product level: customer service, warranties training etc. The attempt is to "milk" the investments made in the offer.

4. **Divestment:** If the marketer is savvy enough to detect the symptoms of decline, early on, the product line can be sold in the latter part of maturity or earlier par: decline stages, at a profit.

Service products that are declining tend not to be withdrawn completely from the market and as a result the market is awash with them. They thus do tend to distract the attention of marketers in particular and managers in general from those products which are starts and profit centers.

4.4.2 Limitations of PLC

It has been accused of being more a descriptive than a perceptive tool; more-post-mortem than a predictive activity, It is not an effective tool for forecasting Although PLCs have been compared to the stages of living entities, they cannot be said to have a predictable and fixed length for each stage. Also, not all PLCs have the normal distribution' bell curve'.

PLCs are forced to give a product-oriented insight, instead of a market-oriented anal' as they concentrate on the service offer and the brand and not on the customers. The market is buffeted by the elements of internal and external environment factors, and therefore their trend analysis seems to be more important to devise marketing strategies.

The PLC obsession makes the marketer stress more on new offer development, so that he concentrates less on revitalizing existing brands. This skewed effort makes the marketer spend more resources on the highly risky new product launches that have a notorious failure rate of over 95o/o. ln the process; the marketer loses momentum in his effort to evolve other uses of the existing offers, which could be more profit generating. But the most dangerous aspect of overt dependence on the PLC could be when a brand is killed under the mistaken notion (arrived after analyzing the sales tend) that it is irreversibly declining - when in actuality, it could be non-preference.

4.5 BRANDING

It is broad confluence of words, images, idea and associations that form a consumer's aggregate perception of the brand. The identity of the brand is as unique as a fingerprint, dictating strategy of the marketeering of the offer. It lives entirely in the mind of the beholder, irrespective of the intentions of the marketer and how he has attempted to create a brand identity. The offering is given an image and a character-almost like a personality. But a brand is much more than a name, logo, slogan or a symbol. Brand connotes for the customer, apart from recognition cues, values, quality, consistency, benefits and features that are promised by the marketer.

A brand can convey six levels of meaning.

1. **Attributes:** Helps the customer associate certain attributes to the offering, like availability of 24-hour service from Citibank (The Citi never sleeps).
2. **Benefits:** The attributes and features of the service should be able to convey the existence and promised delivery of benefits that could be functional (State Bank of India has wide ranging offers for all) and/or emotional ("Security is a warm feeling") and ("The nation banks on us").

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3. **Values:** The brand should communicate about the values and beliefs of the service marketer (HDFC extols trust, faith, and expertise: "With you, Right through"); Delhi Police (With you, for you, Always'.)
4. **Culture:** The service brand can represent certain specific culture (ICICI banks 'Hum hai na' campaign or ING Vysya's 'Mere desh me paisa sirf paisa nahi hai' campaign reflects Indian culture)
5. **Personality:** The service can project a personality (Bank of Baroda assumes a hardworking and reliable personality like its spokesperson Rahul Dravid and same goes for LIC of India)
6. **User:** The brand also suggests the type of customers who uses its service (American Express cards boast that its card holders are achievers).

4.5.1 Importance of branding service products

Both marketer and the customer benefit enormously when service products are brands. As mentioned before, the intangibility of the service makes it difficult for customers to comprehend the totality of the offer, believe in their proposition or be too deeply in the purchase. For the marketer, the same aspects make their persuasion and marketing long drawn out and more strenuous.

By branding service products, customers are benefited in the following way:

- Reducing time and effort in the decision-making process (DMP) during every purchase of a service offer. Customers are able to shift from high to low involvement on their purchase. The name gives recognition of product and reassurance as to quality of their attributes.
- Consistency of delivery, quality and benefits of the offer are assured, considerably deducing customers' risks perception.
- Enhancing the image and statues of the offer; satisfying psychological or emotional needs of the customers.

Brands aid the service marketer in the following ways:

Charge a premium on their service. Customers tend to place more value on the promise, status, security, guarantee and consistency of the offer. Thus some lawyers, consultants, market researchers and airlines, etc., can charge a higher fee than others.

- Service are intangible and therefore do not have a legal case for patenting their concept, innovations, designs, formats or processes.
- The service marketer can segment markets through branding.
- Retain larger number of customers for repeat consumption. This will generate more profits and enable usages in promotions.
- Ensuring a less risky springboard for new product launches through brand extensions. The brand link communicates in advance to the market about the similar attributes and promise of the new offer. Thus, firms like HDFC, ICICI, UTI, SBI and ID: chose to flaunt their names in respect of new financial ventures like retail banking general and life insurance, mutual funds and securities, etc.
- All the products sharing a common brand name by extension enjoy the benefits of common promotion and publicity efforts. Any advertisement of HDFC will have a positive impact on all of its other products and service lines: HDFC Bar," HDFC Standard Life Insurance, HDFC Chubb General Insurance, HDFC Mutual. Funds, etc.
- Increases the value of an asset in the form of brand equity.

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4.5.2 Branding Policies

Brand Name Policies and Decisions

There are three levels of branding policies for service firms:

Corporate/company branding: The service firm's name is promoted and built, followed: by the individual product names. But more often than not, the corporate name is stressed for legitimacy. For example, State Bank is the only brand name that customers know and recall about the financial institution, although they might be considering their 'Teacher Plus' Home Loan Scheme. AII products are subservient or insignificant to it.

Family branding: A very strong brand name either of the firm or one product is bur ' and then multiple brands ride along with it. The benefits are simply, instant recognition and low cost in development. There can be blanket family brands - one brand name for all offers - as well as separate family names for all offers under similar product line. Thus Life Insurance Corporation has used the brand 'Jeevan' for almost all its product, Jeevan Bima, Jeevan Nivesh, Jeevan Shree, Jeevan Anmol, Komal Jeevan, etc. Similarly, the Star TV Group has a bouquet of channels with the family branding of 'Star': Star' News, Star Plus, Star Sports, Star Movies, Star World, Star Gold, etc. SBI Capital Market introduced Magnum as a brand for its mutual fund products in 1987, to avoid the word. 'Share' or 'equity', which were bad words after the stock market crash in the same year.

Individual brands: Each product of the firm has a unique and distinctive brand name and there could be multiple products in a product line. ICICI Bank when it started operations in 1995 had sought to separately brand its retail operations, ATMs (TRICE), Internet services etc., with different logos for each of them as well as the parent financial institutions, SCICI and ICICI. But by 1999, it had initiated steps in building only one brand, ICICI, with one logo (the peacock) and one colour (orange, signifying intelligence and knowledge) It also (for a very short time)brought in one motif (the umbrella) above the name to connote the image and character of safety.

Service brand names can be based on the following:

Name of a person - For example: Oberoi, Snehnaz Hussain, vandana Luthra, Kotak, leela, Nirulas, Akbarallys, etc.,

Place For example: Canara (meaning Karnataka) Bank Indian Airlines, Konkan Railways, Bank of Rajasthan, etc,

Emotions and images (Apna Bazar, wetside, Tanishq (derived from the conjugation Tan+ Ishq that is' love with the body')

Brand Development for Existing service products

There are many ways in which existing service products can be developed:

Brand Extension: An existing brand can be used as the vehicle for introducing new or modified products. It can work even for corporate branding: HDFC, HDFC Bank, HDFC Stand Life Insurance Company, HDFC Chubb General Insurance Company, and HDFC mutual Funds. HDFC Securities etc.

Multi-branding: ln a fragmented market, a service marketer can introduce multiple brands to sweep as much of market share as possible. If not, then business would have gone to competing brands anyway.

Cannibalization: This retrograde development takes place when due to multi-branding, I c brand eats into the current and potential market of another of the same service firm. Citibank had its own credit and debit cards. After it acquired Diners Club, there was perceptive cannibalization.

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Co branding: Different brands can be bundled together as a form of additional benefits and promotions. Car dealers are cobranding their sales with consumer finance companies; similarly housing finance companies are riding the waves with many housing developers. Credit card companies are being cobranded with global franchisers Visa or Master card; they are also being tied to airlines' frequent flyer programmes. Cobranding helps service marketers enter segments not previously targeted by either of them.

Private and generic brands: Retailers and franchisees are bringing out their own brands, called 'private label' brands. These brands are giving distinctiveness to the retailers and the franchisees and preventing customers from comparing the brands. Some retailers, like Tata Retail Enterprise's (Trent's) Westside, have made a virtue of having only store brands. Internationally, Gap was a retailer in the sixties and the seventies of only Levi's denim wares. In the eighties it went into the development of its store brands and now has only its own brand, Gap. Generic brands or simply no brands in services existed in service repair of home appliances, assembly of computers and air conditioners, single coaching classes or single personnel counselling, etc.

Service Brand Building

The following steps should help a marketer build service brands:

1. The basic values of the service company should be clearly enunciated and then the corporate brand can be developed. Thus the strong corporate brand name of Si ICICI bank or HDFC ensures that the respective service products have images of quality and values - only because the respective firms first clearly enunciated their basic values.
2. While brand managers are responsible for the development of corporate and service brand, in services everyone including the providers and the top company personnel should live through and believe in the brand's promise and proposition. Cynicism on the brand will kill any development chance. This happened with all public sector undertaking brands, especially airlines, banks and insurance. The managers and the providers were themselves disparaging their own company offers and proposition.
3. The company should clearly define the essence of the brand that is to be delivered during service transaction. There should be the identified core services as well as. the uniquely differentiating supplementary services that are facilitating in nature. Thus, for a travel agent, core services would constitute booking the ticket and getting the travel documents like passports and visa made, supplementary or facilitating services would be telephonic intimation, home delivery, travel information, etc.
4. At every moments of truth (MOT) occasion, like events, service interaction, seminar news, press conference, e-mail, person-to-person contact, etc., the service firm should ensure positive customer experience.
5. The brand value proposition should always be the main plank for the firm's strategy operations, service delivery and product development.
6. The firm should correctly measure the effectiveness of the brand building exercises. The old method was to measure awareness, recognition and recall. But other methods like measuring value perception of the customer, customer satisfaction customer share of the wallet, customer retention and customer advocacy or referrals are more effective measurements of service brands.

A brand, as an important but intangible component to the total product concept, is targeted to build emotional and psychological relationships with the patrons. The intangibility is so, intrinsic in service propositions and their brands that creating values is a challenge. The main goal then is to build brand relation's and focus on relationship marketing.

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Strategic Drivers of Brand Value

There are ten strategies or brand relationship drivers that are used by service firms to build intangible offers and their brand values. The l0 drivers are divided into three categories:

Infrastructure: relating to organizational drivers, creating corporate facilities to support the organizational processes.

Corporate Focus: relating to top management thinking and orientation.

Process: relating to operational aspects of a service firm

The ten drivers of brand value are:

1. **Creating and nourishing relationships rather than just making transactions:** The cost of acquiring new customers is much more than the cost of retaining

   Customers (see Theory of Leaking Buckets, Customer Retention Strategies, Chapter 20, Part-iii). More investments are required on growing customers, knowing them and then communicating with them with credibility.

2. **Focusing on stakeholders rather than just customers and shareholders:** Getting support from key stakeholders in the short term strengthens brand equity, including profits in the long run.

3. **Maintaining strategic consistency rather than independent brand messages:** Coherent messages of the brand from all sources will positively affect the behaviour of stakeholders. Otherwise there are possibilities of dissonance, inconsistency of messages and image.

4. **Generating purposeful interactivity rather than a mass media monologue:** A balance has to be struck amongst mass, personalized and interactive media for corporate communication. Interactive communication will generate feedback and reach customers through dialogues, integrating them into the service firm's planning and operations. This implies more listening and learning and less telling and selling.

5. **Marketing a corporate mission rather than just service product claims:** A genuine mission will contribute positively to brand building if it is fully integrated with the entire gamut of activities of the service firm, Iike planning, execution, control, leadership etc. It implies that all staffs are in the loop of the mission. Fragmented images are what the stakeholders will carry home if even philanthropic activities are wide and disparate.

6. **Using zero-based planning rather than tweaking last year's plans:** Planning of Integrated Marketing Communications (IMC) includes SWOT analysis (brand relevant internal strengths and weaknesses as well as the external opportunities and threats) and the prioritization of the findings. Zero base in planning of communication implies that all objectives and strategies must be justified in better management of relationships instead of adjusting only last year's plans.

7. **Using cross-functional rather than departmental planning and monitoring:** Integration links expertise or specialization (departments) with information. Internal groups like sales, marketing and customer service must interact frequently and quickly in sharing their respective expertise and create a universal customer formation base.

8. **Creating core competencies rather than just communication specialization and expertise:** While experts in the respective areas of marketing communication are required for developing the materials of communication, generalists are required to plan and manage integrated communication programmes.

9. **Using on integrated agency rather than a traditional, full service agency:** A communication management agency coordinates a brand's total communication programme. This will

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enable them to better stay in the communication loop and monitor the work of the specialist agencies like market research, public relations,

10. **Building and managing databases to retain customers rather than just acquiring new customers:** Information is oxygen for integration. Intimate knowledge of the stakeholders' transactions and interactions will develop for the firm a clearer understanding of them and make them proactive in their communication. Only a programme of building and using databases can make brand mangers create personalized communication.

4.6 NEW PRODUCT DEVELOPMENT

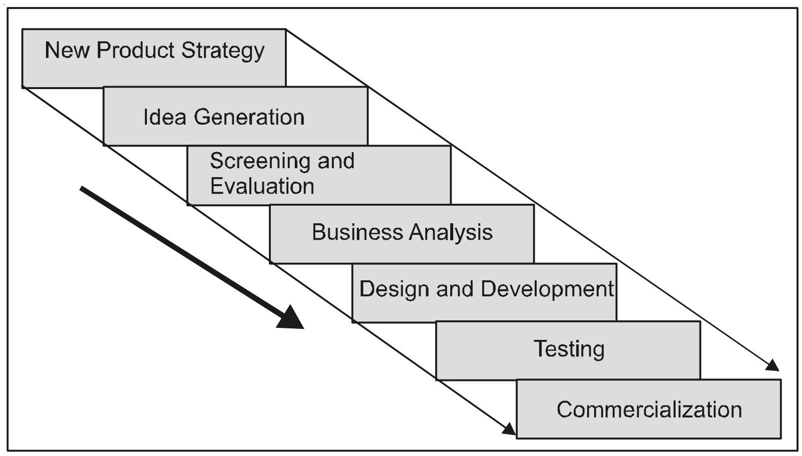

Fig. 4.4: New Product Development Process.

The process of idea screening is at two levels:

1. **Idea Generation:** Sources of information are following:

(a) External:

(i) Changing customer needs and trends

(ii) Competitors

(iii) Distribution/trade/retail/retail channel analysis

(iv) Suppliers

(v) Universities

Advertising and Market Research agencies

(b) Internal:

(i) Research and Development

(ii) Production and process possibilities

(iii) Sales people give information on easier handling, packaging

(iv) Marketing- Perception of customers

(v) Top management- By experience

(vi) Trade Channel- Own distribution channel

(vii) Employees- Knowledge Management.

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2. **Idea Screening**

   (a) **Drop Error:** Failure to spot potential of ideas which later on turn out to be successful.

   (b) **Go Error:** Ideas that have been given "Go Ahead" but later on turned out to be failures.

   The process of idea screening is at two levels:

   (a) New ideas to be assessed in terms of their market potential and organizational capability of producing and selling .For example, when McDonalds' brings out a new branded eatable it Should investigate its market, as well as organizational capability of the delivering the correct product in the right quantities.

   (b) Level 2 screening process is on a numerical basis, i.e., relative merits of different ideas are to be systematically analysed.

3. **Concept Development and Testing:** This implies that the product idea is the product concept. It implies building the prototype.

   Testing: Asking consumers about the reaction and performances about the concept.

4. **Business Analysis:** This includes marketing assessment and financial assessment.

   (a) Marketing Assessment:

   (i) Description of Target Market

   (ii) Forecasting of sales volume

   (iii) An indication of product positioning

   (iv) Likely competitor reaction

   (v) Calculation of potential sales loss from existing products as compared to the new products—cannibalization

   (vi) A specification of new product features.

   (vii) An assessment of achievable price level

   (viii) A strategy for distribution

   (ix) A strategy for promotional requirements

   (b) Financial Assessment: It is based on the marketing assessment and calculations can be made to project:

   (i) Sales volume and value

   (ii) Variable cost of production

   (iii) Incremental fixed cost

   (iv) Contribution and profitability of the new product.

5. **Product Development and Testing:** This consists of functional testing and market testing:

   (a) Functional Testing: Consists of test on prototype and CAD/CAM. The tests are made on functional aspects of product.

   (b) Market Testing: Here, the researcher dwells on the qualitative aspects affecting the customer, i.e., why he likes or dislikes the product and which are the features he appreciates or dislikes.

6. **Test Marketing:** Its main purpose is to discover potential problems with products and with marketing activities. It also seeks to identify who the buyers are and how often they make repeat purchases. Following are the kinds of test market.

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(a) **Standard test market':** It's best suited for FMCG. This should be a scaled down version of intended national market.

(i) A representative geographical area

(ii) Similar advertising media

(iii) Equivalent distribution outlets and sales efforts

(iv) Intended price levels.

(b) **Limited Test Market:** Mini tests markets or stimulated test markets known as "Shopping Laboratories". You place these shopping labs in: shows and exhibitions, Companies resort to this test due to lack of time as a precaution against alerting the competition.

(c) **Product Use Test:** The researcher looks at a trade off analysis repeat and trial purchase.

Test Marketing should measure:

(a) Repeat purchasing

(b) Advertising effectiveness

(c) Effectiveness of introductory offer

(d) Effectiveness of trade offer

(e) Share of total market

(f) Characteristics of buyers and rate of adoption

(g) Reason for not adopting/discounting usages.

Test Market characteristics: Why should you choose a certain location for test market?

(a) No single industry should dominate the market

(b) Should be typical of the competitive advantage situation

(c) Should represent different geographical region so results can be represented

(d) Should have media pattern similar to proposed national media plan.

(e) Should not be small and over tested.

Notional Sales Estimate in Test Marketing

NSE: Total Income of India/Test Income Area × Test Sale Market

Or

NSE: National Sales of Products Related/Area Test of Same Product × Test Sale market

Or

NSE: Shared Market Ratio in Test Market × National Sales of Product Class

Drawbacks of Test Marketing

- The firm should ensure that the risk reduction and cost of ensuring the risk reduction. If new product is M r major commercial risk, cost of staging a test market may outweigh the potential benefits of risk reduction.
- The economic environment, might change between test market and full commercialization, for example, changing customers' willingness and preferences

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- Competitor may not react or retaliate at the test market stage but starts gearing up for a' Me Too" product if its market intelligence system says that the test market is success.
- Innovative products may experience high trial but prove to be fads with short product life cycles.
- Competitors may attempt to undermine a test market by price cutting their own ranges for the duration of the tests,

Categories of New product

1. **Major Innovations:** This involves breakthroughs in technology, the product is rare and a first timer, and it is likely to face technological and marketing failure.
2. **Products Improvement:** This is an innovation within existing markets that have potential for taking market share from competition.
3. **Product Additions:** The organization may offer new product features to a market but offer limited benefits to customer. This might give additional options and choices but no added benefit. This includes mostly "Me Too" products and product line extensions.
4. **Repositioned Products:** This can be considered to be a new product, although in actuality it is product adaptation.

Characteristics of Successful NPD

1. **Important:** Customers must find the new product valuable, as per their perception.
2. **Unique:** Customer must believe that the benefits offered can't be obtained from the existing products. Not being able to make people perceive these product's uniqueness is the biggest reason for NPD failure.
3. **Sustainable:** Competitors must find the new product difficult to copy.
4. **Marketable:** Company must have capability of producing, promoting and distributing the product at a price that is acceptable to the customer.

Check your progress 2

State whether the following statements are true or false:

1. Branding a service offering can add to the image of the service firm.
2. Promoting the name of the service company extensively refers individual branding.
3. SBI, SBI Life Insurance, SBI Magnum are all examples of co-branding
4. Failing to recognize a good idea refers to 'go error'.
5. Test marketing should measure the repeat purchases.

4.7 LET US SUM UP

The service product is an offering of commercial and not-for-profit intent having intangible and tangible features going on to satisfy various needs, wants and desires of the customer According to Theodore Levitt, a product offering consists of three parts: core products, formal product and augmented product. The complete bouquet of all offers of a firm is called Product (or Offer) Mix It is with this set that a service firm can offer the maximum choices to its customers and enhance its strength in the market. A Service Product line can be explained as

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a group of closely related offers targeted at the same type of customers, having the same end use. The breadth (or the width) of the product mix of a service firm refers to its different business propositions or different business lines. It is the different stages that the product goes through during its cycle of birth, youth, maturity, decline and death/rebirth. The marketer can attempt at a revival and therefore it's called a life cycle. The product life cycle consists of five stages: incubation, introduction, growth, maturity and decline. The marketer can make use of market penetration strategies by investing in promotions or making widespread entry through low price, and skimming strategies where short-term gain is the objective with high entree price. For services, the marketer is more capable of moving in at high speed than the goods marketer, as he does not have to grapple with such problems of production, inventory storage and logistic.

It is a broad confluence of words, images, ideas and associations that form a consumer aggregate perception of the brand. The identity of the brand is as unique as a fingerprint dictating the strategy of marketing of the offer. It lives entirely in the mind of the beholder, irrespective of the intentions of the marketer and how he has attempted to create a brand identity. Both the marketer and customer benefit enormously when service. Products are branded. The intangibility of the service makes it difficult for customers to comprehend the totality of the offer, believes in their proposition or be too deeply involved in the purchase. For the marketer, the same aspects make their persuasion and marketing long drawn out and more strenuous. There are three levels of branding policies that a service firm can adopt, corporate branding family branding or individual branding. New product development process consists of seven stages: idea generation, idea screening. Concept development & testing, business analysis, product development and testing, test marketing and full commercialization.

4.8 KEYWORDS

- ***Core product:*** basic features and main reason for purchase of product Formal
- ***Product:*** tangible features associated with the core product
- ***Augmented product:*** features to give psychological benefit to buyers
- ***Offer mix:*** complete range of products of a service firm.
- ***Service product line:*** group of related services targeted at same similar customers. Breath of product mix: different business prepositions
- **PLC:** various stages in a life of a service offering
- ***Rapid skimming:*** entering the market with high promotion and high price
- ***Slow skimming:*** entering the market with high promotion and low price
- ***Divestment***: selling out a product line at early decline or late maturity stage
- ***Company branding:*** promoting the company name extensively
- ***Family branding:*** building brands along a strong product or company brand name
- ***Individual branding:*** each product or the company has a unique brand name
- ***Cannibalization:*** when one brand eats into the market share of another brand of the same service firm

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4.9 QUESTIONS FOR DISCUSSION

1. Identify the key difference between a goods offering and a service product like banking services.
2. Consider the various elements of a life insurance. Identify the core service and secondary service elements.
3. Do you think a brand name is very important for an insurance company? Give reasons.
4. Explain the new process development of a banking service player.
5. Explain how the product life cycle can be used by the marketers.
6. How would the marketers of a banking company go about enhancing their brand image and awareness?
7. Explain 'go error' and 'drop error' for the NPD process of an insurance company.
8. Take examples of any two banks and discuss their service line.
9. Consider any two banks and discuss their service line.
10. Explain company branding, family branding. Individual branding, bran extension and co-branding. Give examples from the insurance and banking sector.

4.10 SUGGESTED READINGS

- C Bhattacharjee, Service Marketing, Excel Book, New Delhi
- Christopher H Lovelock, Service Marketing, Third Edition, Us: prentice Hall International
- Valarie A Zeithaml and Mary Jo Bitner, service Marketing: Integrating Customer Focus across the firm, Third Editor, Tata Mc Graw Hill, New Delhi
- Helen Woodruffe, services Marketing, Longman Group, UK

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UNIT 5: PRICING

Structure

5.0 AIMS AND OBJECTIVES

After going through this unit, you will be able to:

- Concept of value and price
- Uses and objectives of pricing
- Factors influencing pricing decisions
- Pricing strategy

5.1 INTRODUCTION

Price is one of the most critical elements of the marketing mix for services-both for profit as well as not-for-profit firms. It is the only marketing mix variable which generates revenue; all others-product, promotion and place/distribution-are cost drivers. It is also one of the tactical tools least under stood by the marketer. It is the most flexible of all one of the tactical tools (mixes), and can be changed even at the retail level. Pricing decisions have far reaching implications for the organizations, profits, market share, sales and social appeal.

5.2 CONCEPT OF VALUE AND PRICE

Price is what customers are willing to pay for service. 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

Price is a component of value. The consumer's perception of product quality changes with variations in price. The consumer makes a straight –cut analogy: high price = high quality. This 'black box' effect becomes a boon for services as its intangibility prevents consumers from

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evaluating the offer correctly. Prices become very communicative and give a convincing indication of quality. People have no other way of convincing themselves of the quality of restaurants or a hospital expect by the price.

Value is the ratio of perceived benefits of the service to be purchased to piece and other added costs. Traveling time, hassled, energy costs, and psychis costs are son example of added costs.

The customer has to endure monetary and other costs for the service guarantees, warranties, home delivery, quality, brands et al are examples of value as they are indicative of potential benefits in an offer. In sum the benefits are product value, service value, personnel value and image value.

***Product Value**:* the worth assigned to the product by the customer. For examples, a customer might choose to PNB because of superior service and network.

***Service value**:* the worth assigned to the service by the customer. The customer chose to PNB for its centralized, large network ATMs, easy internet banking facilities and phone banking facilities and phone banking facilities.

Personal value: the worth assigned to the service-providing personal by the customer the customer went PNB because of the personal's superior knowledge and customer-orientation.

Image value: the worth assigned to the service-providing personal by the customer, the customer chose PNB because of the name association with reliability assurance, etc.

Monetary price: the actual rupee price and paid by the consumer for a service, in the above example, for the internet banking, ATM cum debit card charges, Maintenance charges etc.

Time costs: the tome the customer has to spend to acquire the service or the service; in the above example, for the internet banking, ATM cum Debit card charges, Maintenance charges etc.

Energy costs: the physical energy spent by the customer to acquire the service. Top open an account, the customer would have had to endure traveling hassles, queuing up inconvenience, by himself or with the family etc.

Psychic costs: the mental energy spent by the customer to acquire the service that is worrying and aggravation. The customer would have suffered anxiety during the selection of bank, documentation, identify checks, especially if there were hassled. The last could happen, for instance, if the papers are rejected or cheque books are talking tie to be issued.

5.3 USES AND OBJECTIVES OF PRICE

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. As an example, a bank may seek to extend its operations to a new region may offer initially no charges for maintenance of internet banking and phone banking and may even allow opening of account at zero balance on order to build volume in that 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 organizations working to financial objectives, prices must be set at a level that allows them to meet their financial objectives.

5.3.1 Organizational Objectives through pricing

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Some commonly found organizational objectives and their implications for price decision are analyzed below:

1. Profit Maximization
2. Market share Maximization
3. Survival
4. Society considerations

1. **Profit or income related objectives:**
   (a) To achieve a targeted return on investment (ROI)
   (b) To maximize profit

2. **Volume or sales related objectives:**
   (a) To increase sales volume
   (b) To maintain or increase market share

3. **Status-qui oriented objectives:**
   (a) Competition rendezvous
   (b) Price stabilization

4**. Society oriented objectives**

Profit or Income Related Objectives

1. **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, it's net worth. The industry leader mostly does this as their pricing a can be independent of competition. Thus HDFC, the leading housing financier, can piece its services to earn a net profit that is 20 per cent of its net worth.
2. **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 profits , the service fir requires data on its segments, possible sale kind each segment at different prices, as also estimates of fixed and variable costs. With these available data, it would be easy for Container Corporation of India (CONCOR) to calculate the combination of price and revenue that generates the highest profits. But those firms which do not have such developed marketing systems like Management information System (MIS), Marketing Research, Estimation and forecasting methods as well as test marketing would not their demand curves-and thus may not able to pursue profit maximization.

Volume or sales Related Objectives

1. **To increase sales volume:** A service firm pursues this piecing 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

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achieve this, the service marketer could either discount the piece or face an innovative pricing strategy. Sahara Air recently tried innovative pricing ; reliance Infocomm,s entry-level "Dhirubhai Ambani pioneer Offer" and then "Monsoon Hungama" pricing for its wireless in local loop (WiLL) mobile services are classis examples of such pricing objectives and strategy.

2. **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 utilization 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's previous position- 'The most passive of all pricing goals.' The firm really seeks to avoid a piece war.

1. **Competition rendezvous:** service firms that enter a marker late – like most private insurance companies in India –try to set a piece as prevalent in the market. The main objective is to make an entry in the market then 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 examples, a new B-school might structure its fess on similar lines as the competition.
2. **Price stabilization:** Here a service firm tends to "follow the leader" 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 price not for profit, sales or beating the competition. Their objective is social 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. The Indian postal service, for example, might actually incur a net cost of ₹ 4.00.

For a postcard but price it at one rupee. Most Non-Governmental Organizations ((NGOs) price their offerings, like greeting cards, toys, wall hangings, etc., high with the objective of transferring their surplus for the service of social causes.

5.4 FACTORS INFLUENCING PRICING DECISIONS

Is price = pricing? It is important for a service management student to know the difference. 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 organization 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 leasing to policy, on the basis of which prices of products are finalized.

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There are four important bases for price determination:

1. What it costs to produce a service.
2. The amount that consumers are willing to pay for it.
3. The price that competitors are charging.
4. 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 on identification or measurement of a particular r type of cost input, them 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.

Cost-based pricing can be of two types:

1. Full cost or mark- up pricing
2. Marginal cost or contribution pricing

Full cost or make –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. A student in a computer training school during the exam seasons, a customer in a Goa hotel during the monsoon, a visitor to Essel World theme park during the rainy seasons or a diner in a restaurant is charged not on the basis of total unit cost of producing the offer, but only the additional costs which result directly from servicing that additional customer. This is normally used when most of the service firms output has been sold at a full price that has recovered its fixed costs–but in order to keep its 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 servicer 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 service fulfilling similar needs (substitute competition-a restaurant versus movie theatre versus discotheque) or similar services fulfilling different

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needs(indirect competition-a bank offers savings account services, loans, mutual funds, corporate banking etc.)

- **Going rate pricing:** this is used in those services where cost levels are different establish, and a going rate is preferred. In one street a cluster of restaurants ('khau gali" and 'a going 'Chowpatty' in Mumbai,' Chhapan Dookaan' and 'sarafa' in Indore, 'paranthe wala Gali' in Delhi, etc.) serve basically the same fare at the same prices. The same is true for apparel stores, electronics or books in one street(Fashion street and Heera Panna, in Mumbai). Charging a going rate is an easy way to avoid calculation of costs.
- **Sealed-bid pricing:** this is the system if tenders and quotations where bids are received from service providers. Thus housekeeping, restaurant and canteen contracts, security services, fleer operations, etc., are usually awarded on the basis of predetermined specification fulfillment 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 services marketer might price himself out of business or might invite price retaliation. This will increase commoditization of the service, make customers very piece 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, are their lower then–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 woks. But if there is a general recession, then above-the–market piecing 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's ability to pay (correct identification of the early adopters, middle-majority and laggards in a market) price discrimination logically takes place here.

The discrimination is carried out on the basis of groups of users, points of use and types of use.

- **Groups of user discrimination:** here the same service is priced for different groups of users depending on their ability as well as willingness to pay.
- **Points of use/consumption discrimination:** Different prices are charged from different points of service delivery. This is leveraging the locational advantages of the provider. Thus, retail stores have different piece tags in up-market or posh localities than in suburban locations. Banks offer loans at different inters rates to businessmen, farmers, students. It depends on the type of loan they are applying for.
- **Time-of-use discrimination:** a service industry is usually open to the vagaries of demand and seasonal demands, as it cannot be stored and resold later (Perishability) and have to be produced and consumed at the same time (inseparability). The insurance companies can expect to increase the rates furring any epidemic companies on the country. Or they can do the reverse in order to gain competitive advantage.

5.5 PRISING STRATRGY FOR BANKING AND INSURANCE INDUSTRY

For many years, the only source of revenue for the banks was the difference in the interest rate of interest paid on investments and interest received on loans. However, the situation today has changed; the modern banking scenario offers many alternative sources of revenue for the banks. These sources include:

- Annual charges for the credit and debit card
- Penalties on non-payment of the charges
- Penalties on non-payments of credit card bills
- Commissions for cross-selling
- Charges for payment of utility bills
- Interest on overdraft
- Cheque bouncing charges etc.

Though piecing strategies are cost-based, competition based and customer based but many banks nowadays base their pieces on risk and return pay off. However, while initiating a piece change reactions from consumers as well as competitors have to be taken into consideration.

Modern Times have seen a fierce competition between banks. Owing to this competition, every bank should have its own methodology for pricing credit. pricing should take into consideration the cost of funds, the administrative expenses, the credit losses incurred and the expected profits.

Banks should look to adopt a pricing strategy that change with every change in the product mix. Although ratios like loan to deposit have changed, the margins do not reflect these changes. So banks should look forward to revive their pricing strategy to make the best of the changing times.

Price plays an important role in insurance marketing. The price for the policy, which is known as premium, has a considerable impact on number of policies sold and the net revenues generated. As pricing is an important aspect that is considered by every customer, the policies should be competitively pieced. Specially pricing of live insurance is usually done keeping in mind the competition and the on going interest rates. But, ultimately it's the quantum of risk involved in the policy that the decides the price of the policy. High risk for the marketer means a higher price.

It becomes difficult to ascertain the fixed and variable costs associated with per unit of production of service. This is prominent when various services are offered instead of one. Hence, pricing a service based on cost of production and delivery becomes difficult. Therefore, most insurance services are priced as per the competitor pricing and risks inherent. Pricing can also be done keeping in view the fluctuations in pattern of demand. For example, pricing of travel insurance van be lowered during lean season.

While pricing insurance services, it is important to take customer into account. The way in which the customer perceive the costs and benefits of the service, can be instrumental in deciding the price. Like in any other service industry, the perceived benefits can be increased by supplementary services. They can be personalized service, any time information on policy status, hassle free premium calculations and timely reminders for premium payments etc. also by lowering the customer's perception and cost, the insurance can charge a higher price.

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5.6 LET US SUM UP

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 is a component of value. The consumers perception of product quality changes with variations in price. The consumers make a straight-cut analogy: high price= quality. Value is the ratio of perceived benefits the service to be purchased to price and other added costs. Travelling time, hassles, energy costs, and psychic costs are some examples of added costs. The importance of pricing to the development of marketing strategy is reflected in the diverse range of strategic uses to which it is put. Organization objectives which are based on pricing are: profit maximization, market share maximization, survival and societal considerations. Pricing is strategic, an activity under taken by the top management to decide the way revenue would come, price is tactical, one – time decision affection the whole organization 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 piecing is a process leasing to policy, on the basis o which price of products are finalized. Cost basis for pricing includes: full cost or mark- up pricing and marina pricing. Competitor based pricing includes: going rate pricing, sealed bid pricing below the competition and pricing above the competition. The sources of revenue for banks in addition to the interest paid on loans include annual charges for the credit and debit card, penalties on non-payment of the charges penalties on no-payment of credit card bills, commissions for cross-selling, charges for payment of utility bills, interest on overdraft and cheque bouncing charges etc. Banks should look to adopt a pricing strategy that changes with every change in the product mix. Owing to the competition, every bank should have its own methodology for pricing credit. Pricing should take into consideration the cost of funds, the administrative expenses, the credit losses incurred and the expected profits. The price for the policy, which is known as premium, has a considerable impact on number of policies should and the net revenues generated. As pricing is an important aspect that is considered by every customer, the policies should be competitively priced. Ultimately it’s the quantum of risk involved in the policy that decides the price of the policy. High risk for the marketer means a higher price.

5.7 KEYWORDS

- ***Energy costs:*** the physical energy dpent by the customer to acquire the service.
- ***Marginal cost pricing:*** A special king of cost-based piecing occurs when service firms choose not to include their fixed costs.
- ***Competitor-based pricing:*** this pricing is based on what the competitor is offering. A service firm used this method to make an entry in the market.
- ***Sealed-bid pricing:*** this is the system of tenders and quotations where bids are received from service providers.

5.8 QUESTIONS FOR THE DISCUSSION

1. Give examples to illustrate situations where price competitiveness may be largely absent in service markets.
2. Analyze the product mix of a banking organization and identify the pricing strategies used to increase total revenue.

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3. Using examples from the insurance sector compare the advantages and disadvantaged of cost-plus and marginal cost pricing.
4. Critically analyse the importance of customer in deciding the price of an insurance policy.
5. Take an example of any bank and analyse how price discrimination is practiced between different groups of customers.

5.9 SUGGESTED READINGS

- C Bhattacharjee, service marketing, Excel books, New Delhi
- Chriristopher H Lovelock, Services Marketing, Third Edition, Us: Prentice Hall International
- Valarie A Zeithaml and Mary Jo Bitner, Services Marketing: Integrating Customer Focus across the Firm, Third Edition, Tata McGraw Hill, New Delhi
- Payne, Adrian, The Essence of service Marketing, Prentice Hall-India, New Delhi.

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UNIT 6: PROMOTION

Structure

6.0 AIMS AND OBJECTIVES

After going through this unit, you will be able to:

- Know the steps in designing communication
- Understand the guidelines for service communication
- Describe the communication mix elements

6.1 INTRODUCTION

The word 'promotion' is derived from the Latin word 'promovere', meaning 'an attempt to shift the attention of people from one end of the spectrum (disinterest) to the other (interest)'.Service marketers have used this marketing tool 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 is with the motto of fulfilling multi- dimensional objectives, for example, informing, sensing, sensitizing, persuading and transforming the potential customers in to actual and habitual customers. The private and foreign banks promote excellently but maintain economy. They promote and get a success in transforming the prospects into actual customers. They show excellence in selecting a suitable vehicle. They show excellence in formulating a budget and they also make use of different components of promotion in an effective way. The PSBs, of course, promote but do not keep into consideration the creativity. They fail in focusing on the dimensions which may sansitise and impress upon the customers. It is due mainly to the fact that they lack professional excellence and do not assign due weightage to this dimension of marketing.

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The strategic decisions for promotion need managerial proficiency. It is right to mention that banking transactions considerably rest on the expertise of banks managers and their instrumentality in developing a team, creating team spirit and nurturing team culture. While promoting, the bank professional need to make use of different components of promotion.

Advertisement, a paid form of persuasive communication, has been found witnessing a number of qualitative improvements due to new generation of information and communication technology. The new print technology and the outstanding contributions of satellite communication have vistas for adding additional attractions to advertisements. The banks also need to make use of this component of promotion with the help and cooperation of professionals. They can take the support of professional advertising agencies for this purpose.

The sales promotion as a component of promotion is found helpful in touching the target. The different tools of sales promotion may be instrumental in motivating the customers as well as the bank employees. The innovative schemes of sale promotion are to be offered by the professionals for attracting the old as well as the new customers.

The personal selling is found playing an important role in promoting the banking transactions. The agents or advisors play an incremental role in persuading the prospects or potential customers. In this context, we find communication excellence and personality of advisors or agents instrumental in activating the process of persuasion. The private and foreign banks have been found making use of this components and getting with the help and cooperative of advisors or agents.

The word-of- mouth promotion as a component of promotion focuses our attention on transmission of positive feelings to friends or relatives based on personal experiences. If we are satisfied with the services of a bank, it is natural that we communicate our feelings to our friends or relatives and influenced by such transmission we find them making use of the services and because they are found satisfied the process keeps on moving. Here it is important to mention that negative transmission of word-of-mouth promotion is very fast.

The PSBs have been bearing huge social costs. Hence, the professionals need to focus on the social contributions. The private and foreign banks focus on the profit generating segment and therefore while promoting they throw light on the outstanding features of their services or schemes. Willingly or unwillingly, the PSBs have to advance the priority sector which is not to be a profitable segment. While promoting, they should highlight their contributions to the transformation of agrarian economy. They also advance to the weaker sections, students and even we find these investments commercially unproductive.

Thus, both categories of banks private or public need to promote. This is significant to promote their business and in addition also to help them in building and projecting a positive image. When to promote, how to promote, how much to spend on promotion and what types of mix to be adopted in a particular condition are some of the key excellence may be successful in answering to the emerging problems.

6.1.1 PROMOTION

Promotion is some form of communication through which any company communicates the benefits of its offering to the target consumers in such a way that they recognize that offering is uniquely qualified to meet their needs. If it is mass communication and we pay for it then it is called as advertising. If it is one-to-one or one making a pitch to a small group, we call it as selling. If we participate in some way while designing the communication but do not pay for it then we call it as public relations.

The objectives of any marketing promotion are related to the goals and strategies of the organization launching the project. Normally, the marketing objectives of promotional efforts

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are focused on attracting new customers, raising awareness, increasing sales, or expanding market penetration. The scope of an initiative is generally based on the firm's advertising budget.

Banks have a unique challenge when it comes to marketing because they do not offer tangible products for consumers. Promoting a bank requires convincing consumers to trust a bank with their money and make customers feel like they are getting the most value for their money. Once customers invest with a bank, the bank must work to keep customers and get them to buy-in to additional products.

6.1.1.1 Aims of Promotion:

(a) **Persuasion:** One of the most important aims of promotion draws our attention on persuasion. This is found related to the transformation of attitudes. By persuading, the banks find it convenient to transform the negative attitudes of prospects into a positive one.

(b) **Informing:** The promotion also aims at informing the customers or prospects the outstanding properties of services or schemes offered by banks. The transmission of information is found catalytic to the transformation of desire into action.

(c) **Reminding:** The promotion is also with the motto of reminding the customers or prospects. Transformation, satisfaction and retention are the contributions of effective promotion. We need to remind our customers frequently so that the actual customers are transformed into the habitual customers. If we have satisfied them and remind them properly, the repeat visit or retention comes as a result.

(d) **Reinforcing:** Promotion is also used to reinforce customer satisfaction. To be more specific in the banking organisation, it is much more impact generating that you gets a success in increasing the number of habitual customers. We find promotion simplifying our task considerably.

The overall aim of Promotion or persuasive communication as we call frequently is to encourage, the customers to proceed smoothly through the various stages of the decision making processes. The challenge for the bankers is to divert the attention of customers so that they are well aware of the services or schemes offered. The promotional strategy should be successful in generating interest and then the transformation of interest into the desire and finally into action. Thus, the generation of interest and information of interest into action make it essential that whatever the strategic decisions are made by the professionals are creative. We cannot negate that creativity becomes the focal point in promotion without which the sensitivity is not possible.

6.1.1.2 Components of Promotion

Before formulation of a sound promotion strategy for the banking organizations. It is essential that we go through the various dimensions of promotion. In the context of promotion, we focus on dimension like advertising, public relations, sales promotion, personal selling, word-of-mouth promotion, telemarketing and cause related and sponsorship marketing.

- **Advertising:** Advertising is nothing but a paid form of non-personal presentation or promotion of ideas, goods or services by an identified sponsor with a view to disseminate information concerning an idea, product or service. The message which is presented or disseminated is called advertisement. In the present day marketing activities hardly is there any business in the modern world which does not advertise. However, the form of advertisement differs from business to business. Out of all, we find the print media and telecast media suitable to the banking organizations. In addition, the formulation of an optimal budget is also found essential to make an assault on the unproductive expenses.

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- **Public relations:** "Public Relations" is a management function that creates, develops, and carries out policies and programmes to influence public opinion or public reaction about an idea, a product, or an organization. The field of public relations has become an important part of the economic, social, and political pattern of life in many nations.

  Public relations activities in the modern world help individuals and organizations to build prestige, to promote products and to win elections or legislative battles.

- **Sales promotion:** Sales promotion is a type of Pull marketing technique. If you have a product which is new in the market or which is not receiving a lot of attention, then you can promote this product to customers via sales promotions.

  When a brand wants to increase the sales of its products, it uses Sales promotion. The brand can increase the sales by attracting new customers to their products or by retaining the old customers by various means. The Organizations can also motivate the dealers and distributors of their channel to perform better for their brand, and to get their stock moving.

- **Personal selling:**Personal selling (or salesmanship) is the most traditional method, devised by manufactures, for promotion of the sales of their products. Prior to the development of the advertising technique, personal selling used to be the only method used by manufacturers for promotion of sales. It is, in fact, the forerunner of advertising and other sales promotion devices.

  Personal selling is a face-to-face contact between the salesman and the prospect; through which the salesman persuades the prospect, to appreciate the need for the product canvassed by him – with the expectation of a sales-transaction, being eventually materialized.

- **Word of mouth:**Oral or written recommendation by a satisfied customer to the prospective customers of a good or service. Considered to be the most effective form of promotion, it is also called word of mouth advertising which is incorrect because, by definition, advertising is a paid and non-personal communication.

- **Telemarketing:**Advertising and selling with the help of telephonic and television to optimize the expanses on sales people, a new dimension of promotion in the Indian perspective is called telemarketing.

- **Cause- related and Sponsorship Marketing:** this component of promotion throws light on the promotion of social cause. The banks also need to play societal role. We find PSBs bearing social costs in different ways. In this component, the banks are supposed to help the victims of natural calamities or the victims of war as refugee. This provides to banks a platform to display their banners for the projection of their social image. In addition, the sponsorship marketing focuses on organization of events and playing the collected funds as donation for social welfare. The banks make use of the place for advertisement where we find assembly of a large number of people coming from different segments.

  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. The choice of the communication mix or the promotion blend would depend on whether the advertiser wants to increase awareness, change opinions, alter attitudes, use high degree of persuasion, etc. The advertiser or the service firm also has to take de: choice of media, which would depend on the target audience and the reach of the medium (Circulation and viewership/ readership).

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6.2 STEPS IN DESIGNING COMMUNICATION

Integrated marketing communication (IMC) is a continuous effort to plan, execute and evaluate techniques for selling or advertising a product by using traditional and nontraditional methods of promotion.

1. Identify the target audience or receivers;
2. Determine the promotion objectives;
3. Develop the message;
4. Select the communication mix or the promotion blend;
5. Select the media vehicle;
6. Set up systems for feedback and feed forward.

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. For example, a high-priced hospital would have chosen the upper income group through segmentation. But now for promotion it would require to address people who are interest treatment of, say, cancer or heart diseases or plain cosmetic surgery. Its message, promotions and media choices would be decided accordingly, i.e., tailormade for this select audience.

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 and is illustrated below:

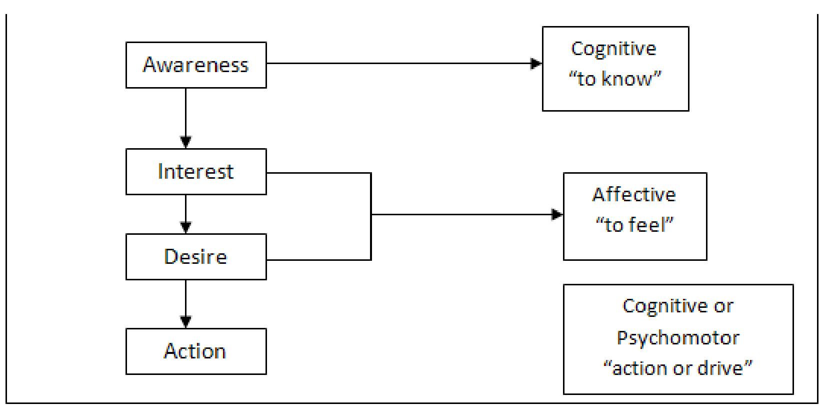

Fig.: AIDA Model

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According to this model, the service consumer moves through various stages in sequence. The customer is first aware of the service brand, which will generate interest and then desire in the offer. Once the desire is present, the customer is motivated or 'driven' to purchase the service product. The whole sequence grinds to a halt even if one of the tasks is unachieved. This implies that without even basic consumer awareness, the service marketer cannot hope for any sales.

The message formulation will depend upon which of these AIDA sequence tasks is to be achieved. Thus, if a health clinic wants to make its target segment aware of the store then the message will be information-oriented. If a hotel chain wants to increase its bookings during a slack season like the monsoon, it might advertise for special discounted offers, hoping for a rush for occupancies.

Message development is guided by the encoding process, which involves the consideration of four issues:

- Message content - what to say;
- Message structure - how to say it logically;
- Message style - creating a strong presence; and
- Message source - who should develop it.

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 service scape itself.

Select the Media Vehicle

The media vehicle is selected by the effectiveness and efficiency with which 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's letters (on paper or through e-mail), personal interaction, etc. This is where media would be required for its audience profile and viewer reading or media habit'

Set up Systems for Feedback and Feed forward

The communicator should undertake two important exercises to make his present future messages effective:

1. Feed forward is a kind of pre-test undertaken before the message has been broad cast to ensure that the message will be received.
2. Feedback is a kind of post-test undertaken after the message has been broad cast to ensure that the message was received.

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The issues of promotion blend Iike 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.
- Competitive intensity is high or low.
- The geographic spread is large or small.
- The custom within a specific service sector dictates promotional practice.
- Managers are sophisticated or not.

6.3 GUIDELINES FOR SERVICE COMMUNICATION

There are six guidelines for services advertising which apply to a wide range of service

1. **Provide tangible clues:** To overcome the intangibility of services, which is more performance and experience than goods, tangible elements within the part' surround (total product concept) can be used to provide tangible clues.
2. **Make the service comprehensible:** Again due to their intangibility. Services resemble concept products and it becomes difficult for the customer to understand the offer and its benefits. Thus, tangible attributes of the service can be made of to help in understanding the offer. Thus, ICICI Bank (briefly) used the umbrella, symbol as part of its "Safety Bonds" offer, to communicate the offer effectively.
3. **Communications continuity:** The service marketer uses logos, signage, symbolism packaging and advertising to present a unifying and consistent theme over time. This greatly helps in the continuity of the message and in differentiation.
4. **Promising what is possible:** Due to the intangibility of services, the customer has difficulty believing in the promise, what can reinforce his faith is consistent service delivery as promised by the service marketer.
5. **Capitalising on word of mouth:** The intangibility and variability of service make it vulnerable to word of mouth communications and their impacts. Recommendation are an example of how with of mouth communications influence buying decisions. People seek personal recommendations for plays, lawyers, doctors, hair stylists, etc.
6. **Direct communications to employees:** The important of internal marketing high lights how a highly motive provider cam make a difference to service quality. The enthusiasm of internal customers, especially if they are in a high contact service industry, will infectiously transfer itself to their customers.

6.4 COMMUNICATION MIX ELEMENTS

6.4.1 Advertising

The word 'advertising' is derived from the Latin word advertere, 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.

6.4.1.1 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 customer's 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. For example, a Korean food retailer or restaurateur may come across negative feelings amongst people who have come to know that one of the delicacies of the Koreans is cat and dog meat. The Korean restaurateur might approach an advertising agency to try and change the attitude of the people towards him. The advertiser seeks to change the attitude of the customer and the messages are directed at the affective (having the ability to feel) part of his brain.
- **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.

  The advertiser seeks to make the consumer buy the service offer and the message is directed at the cognitive or psychomotor (drive for action) part of his brain.

6.4.1.2 Selection of Media

Characteristics of the Medium

The advertiser should know about the following characteristics of the medium:

- Geographical coverage of the medium;
- Type and quantity of audience reach;
- Frequency with which it can touch the targeted audience;
- Possibilities of using sound, colour and movement;
- Ability to reach niche or special-target segment.

All of the above characteristics are valid if accompanied by credibility of the message communicating the offer.

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Atmosphere of the Medium

'The Medium is the Massage' was the intentionally intriguing title of the seminal book by Marshal McLuhan. The medium could have its own image, which could be at variance with the image of the organization. Then the chosen medium or vehicle cannot faithfully communicate the image of the organization; a medium with a different image might convey a different image for the service marketer, For example, a conservative banking. Organization like ABN Amro may not want to be use a funky, youth-oriented channel like MTV. The image of the latter might be so very different from that of the former.

Coverage of the Medium

The medium to be chosen should be in a position to cover the target audience. Taking a different perspective, the medium should be in a position to explain with verifiable facts the kind of target audience it reaches and their detailed characteristics. If the service marketer finds that it suits his requirement then he can choose the medium. For example, an advertiser would like to know the type of people who would be seeing the outdoor advertising in the form of posters or hoardings (or billboards) inside a railway station; if they are the same as his target audience, then the medium is a good choice.

Comparative Costs

The service marketer should know the comparative costs between media in reaching specific target group, which is expressed in Rupees per thousand viewers or readers.

6.4.1.3 Strategic Issues in Advertising

Processing Advertising

Advertising a paid form of persuasive communication requires to follow certain processes to protect and promote the interests of an organization. The banking organization while using this tool of promotion need to know in-depth about the advertising process so that the creativity and sensitivity in advertisement increase its effectiveness. It is against this background that we go through the advertising process:

- **Setting the Objectives:** The first task before the bank professionals is to set objectives for the realistic campaigns. The objectives should, of course be quantifiable. This simplifies the task of marketing planners to evaluate whether the objectives have actually been achieved. The sales objective is considered to be one of the most common objectives of advertising in almost all the organizations. Here, the advertisement is supposed to move customers nearer to the making of buying decision. The advertisements aim to prompt customers for immediate action whereas the delayed-action advertisements influence the buying behavior and three- force its impact is found in the long run.
- **Finalising the Advertisement Budget:** The next process is related to the formulation of a budget for advertisement. Searching an optimal point between spending too-little or spending too-much requires professionalism. While designing a budget, the bank professionals need to go through some of the essential needed for optimizing the budget. This requires an idea regarding the percentage of sale.Advertising budgets based on such figures may in turn be set at a level which is too high or too low for the present market conditions. Another base is found competitive parity in which an organization spends the same amount of money on advertising that as their big competitors, specially to maintain their share of market. In the formulation of budget, we find all available funds also used as a base which permits spending as much as the banking organizations can afford to spend on the advertising budget.

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- **Creating Campaign:** The next process is related to the creation of campaign. Here creativity playing a significant role since the creative campaign depends upon the excellence of advertising professionals. The task is here to create such a campaign for advertising which helps in influencing the target audience.
- **Media Selection:**The media planners need to balance a variety of considerations in selecting the best mix of media. They need to allocate their budgets between several media in order that the advertisement reaches a significant proportion of the target audience, such as the right coverage and the desire frequency. Thus the first consideration is coverage which draws attention of the policy planners on the degree of coverage offered by the different media.
- **Evaluating the Campaign**: The next process is related to the evaluation of the advertising campaign. Once the task of choosing the media is over, it is found pertinent to evaluate the effectiveness of advertising. This can be done at two stages- pre-testing which takes place before the commercials have been run and the second is post- testing which is carried out after the commercials have appeared.

6.4.1.4 Evaluating the Effectiveness of Advertising

It is essential for almost all the organization to make it sure that they are advertising in a right way. This is helpful to increase its effectiveness to make the tool productive. Effectiveness of Advertising can be measured through the following process:

- **Pre-Testing:** Pre-testing, also known as copy testing, is a specialized field of marketing research that determines an ad's effectiveness based on consumer responses, feedback, and behavior. Pre-testing is conducted before implementing the advertisement to customers.

  (i) Check-list test: A check-list is a list of good qualities to be possessed by an effective advertisement. A typical check- list provides rating scale or basis for ranking the ads in terms of the characteristics.

  These characteristics may be honesty, attention getting, readability, reliability, convincing ability, selling ability and the like. The ad that gets highest score is considered as the best.

  (ii) Opinion test: Opinion test or consumer jury test is one that obtains the preference of a sample group of typical prospective consumers of the product or the service for an ad or part of it. The members of the jury rate the ads as to their head-lines, themes, illustrations, slogans, by direct comparison.

  (iii) Dummy magazine and port-folio test: Dummy magazines are used to pre-test the ads under conditions of approximation resembling normal exposure. A dummy magazine contains standard editorial material, control ads that have been already tested and the ads to be tested. The sample households receive these magazines and the interviews are conducted to determine recall scores.

  Port-folio test is like that of dummy magazine test except that the test ads are placed in a folder that contains control ads. The respondents are given these folders for their reading and reactions. The test scores are determined in the interview. The ad with highest score is taken as the best.

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(iv) Inquiry test: It involves running two or more ads on a limited scale to determine which is most effective in terms of maximum inquiries for the offers made. These inquiry tests are used exclusively to test copy appeals, copies, illustrations, and other components.

Any of these elements may be checked. The point that is to be checked is changed and all other components are unaltered, to get the score.

(v) Mechanical tests: These mechanical tests are objective in nature unlike the one already explained. These help in provide good measures as to how respondent are eyes and emotions reaching a given advertisement.

- **Concurrent Testing Methods:** Concurrent testing is a software testing activity that determines the stability of a system or application under test during normal activity. Concurrent testing is the exercise of running continuous testing with functional testing concurrently in order to discover defects that would not otherwise be detected without the additional activity. Concurrent tests commonly put a greater emphasis on robustness, performance, and system integration with production-like activity, which should determine correct behavior of the system under normal circumstances.

(i) Co-incidental surveys: This is called as coincidental telephone method also whereby a sample of households is selected, calls are made during the time programme broadcast, the respondents are asked whether their radio or television is on, and if so, to what station or programme it is tuned? The results of the survey are used to determine the share of response for the advertisement or the programme.

(ii) Consumer diaries: This method involves giving the families selected in advance of diary or individual diaries to the members of the family. The selected families and individual respondents are asked to record the details about the programme they listen or view. The diaries are collected periodically to determine the scores.

(iii) Mechanical devices: The mechanical devices used to measure the ad differences concurrently are more common to broadcast media.

These are:

1. Audio meters
2. Psychogalvanometer
3. Tachistoscope and
4. Truck Electronic Unit.

(iv) Traffic counts: Traffic counts are of special applicability to outdoor advertising. One can get good deal of information through traffic counts. This counting is done by independent organisations may be private or public. This work is also undertaken by advertising agencies. For instance, how many automobiles and other vehicles were exposed to a bulletin board or a poster or a wall painting and how many times? Can be determined.

- **Post-testing methods:** Post-testing. The evaluation of the effectiveness and impact of an advertising campaign either during or after the campaign's run. Post testing answers a wider range of questions, more specified, and generally inexpensive. It examines whether the conditions of introduction and purchase are genuine, not imitated.

(i) Inquiry tests: It is controlled experiment conducted in the field. In inquiry test, the number of consumer inquiries produced by an advertising copy or the medium is considered as to the measure of its communication effectiveness.

Therefore, the number of inquiries is the test of effectiveness which can be produced only when the ad copy or the medium succeeds in attracting and retaining reader or viewer attention. To encourage inquiries, the advertiser offers to send something complimentary to the reader or the viewer, if he replies.

(ii) Split-run test: A split-run test is a technique that makes possible testing of two or more ads in the same position, publication, issued with a guarantee of each ad reaching a comparable group of readers. It is an improvement over the inquiry test in that the ad copy is split into elements like appeal layout headline and so on. Here also, the readers are encouraged to reply the inquiries to the keyed or the given address.

(iii) Recognition tests: Recognition is a matter of identifying something as having seen or heard before. It is based on the memory of the respondent. It attempts to measure the ad effectiveness by determining the number of respondents who have read or seen the ads before. To arrive at the results, readership or listenership surveys are conducted.

(iv) Recall tests: Recalling is more demanding than recognizing as a test of memory. It involves respondents to answer as to what they have read, seen or heard without allowing them to look at or listen to the ad while they are answering.

There are several variations of this test. One such test is Triple Association Test which is designed to test copy themes or the slogans and reveals the extent to which they have remembered.

(v) Sales tests: Sales tests represent controlled experiment under which actual field conditions than the simulated are faced. It attempts to establish a direct relationship between one or more variables and sales of a product or service. It facilitates testing of one ad against another and one medium against another.

To sum-up, ad effectiveness testing is a must to avoid costly mistakes, to select the best alternative from the apparently equal alternatives, to resolve the differences of opinion and to add to the store of knowledge having deep bearing on advertising effectiveness and efficiency. Ad effectiveness testing can be at three levels namely, prior to, during and after the release of an advertisement.

There are many methods to choose. The final results depend on the validity, reliability and the relevance of each method employed. Testing, if done in good faith, can payout its costs and rich dividends too.

6.4.2 Personal Relations

Public relations can be defined as, "The planned and sustained effort to establish and maintain goodwill between an organization and its 'publics'." **PCP**-British Institute of Public Relations.

The 'publics' constitute all those people and organizations who have a stake in the comp:' (the 'stakeholders'). They include shareholders, employees, governments (local or central), opinion leaders of society, the media, customers (present and potential), financial institutions, suppliers, etc.

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Like most other communication programmes, public relations should also adhere objective specifications, goal settings, deciding on the mix of PR activities and implementing them in an integrated way while evaluating results.

Task 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, 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.

Dimensions of Public Relations

Kotler has thrown light on the different dimensions or components of public relations. Such as:

- **Press Kits:** Whenever you organize a press conference, please don't forget to distribute to the press reporters the press kits containing valuables writing materials which throw a big impact and induce them to write in your favour.
- **Speeches:** Since you are supposed to have sophisticated information technologies please record them to use on the required occasions.
- **Seminars:** Organise seminars, workshops frequently and invite prospects, customers, vocal persons, leaders, intellects and so.
- **Annual Reports:** Publish annual reports of your banks and use good quality of paper and print devices. Scientifically and technically sound annual reports would help a lot.
- **Charitable Donations:** In tune with the principles of social marketing, you are supposed to make significant contributions to the development and welfare of society. Please donate where you find it necessary. To be more specific when you find natural calamities show your attitude and worth. This is likely to help you in future.

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- **Sponsorships:** A number of events are organized and you should keep your eyes open and mind active. Please don't miss to sponsor the events where of people from cross section of the society are to assemble.
- **Community Relations:** Develop community relations which help you in projecting your image.
- **Lobbying:** This focuses on lobbying the noted personalities, VIPs, Social reformists helping you substantially.
- **Identity Media:** take support of media helping you in the projection of a positive image.

Public relations activities

According to Mersham et al (1995:8), part of the problem of understanding What constitutes public relations has to do with the fact that it is concerned with many differentactivities. They refer to the International Public Relations Association (IPRA)'s list of 14 different type of activities with which public relations practitioners might be concerned:

1. counseling based on an understanding of human behaviour
2. analysing future trends and predicting their consequences
3. research into public opinion, attitudes and expectations and advisingon necessary action
4. establishing and maintaining two-way communication based on truth and full information
5. preventing conflict and misunderstandings
6. promoting mutual respect and social responsibility
7. harmonising the private and public interest
8. promoting goodwill with personnel, suppliers and customers
9. improving industrial relations
10. attracting competent personnel and reducing labour turnover
11. promoting products and/or services
12. projecting a corporate identity
13. encouraging an interest in international affairs
14. promoting an understanding of democracy

The above activities which require a broad understanding of business, management andthe social sciences are carried out by the public relations practitioner by means of a public relations programme and/or a public relations campaign.

6.4.3 Sales Promotion

Sales Promotion, an important component of the promotion mix, is found instrumental in motivating the customers as well as the bankers. All other forms or components of promotion except the advertisement are found below the line. Sales Promotion are short- term activities seeking to boost the banking business. Sales Promotion techniques involve a whole host of techniques ranging from fairly simple methods.

Importance of Sales Promotion to banks: This component of the promotion mix is found significant even to the banking organisations. The following facts testify the instrumentality of sales promotion in promoting the banking business.

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1. **Encouraging customers to try out a newly launched scheme:** In almost all the banks. We find a practice of offering incentives to the bankers as well as to the customers as and when they introduce or launch a new scheme. It is natural that whatever the incentives are offered are found effective for a limited period. The banking organizations find it a convenient to encourage customers to make a positive decision and they buy the services or schemes. Since the schemes launched are new, it is natural that customers in in general have a temptation or craze for the same and mire so they get additional incentives, the tools of sales promotion is likely to be effective.
2. **Enticing new user to try a product which is already launched:** We are all aware if the fact that prospects of today are customers of tomorrow. The main thing is activating the process of transformation. There are a number of devices to transform the prospect into actual customers or users. The tools of sales promotion ate found effective in enticing the new users and prospects to try out the old services or schemes. It is natural that all the prospect don't make a buying decision at same time. For the banking organization, it is pertinent that during a particular period of the year when they find more money floating into the hands of masses, they entice new users since during that time, the sensitive rate of the prospects is found high. The tools of sales promotion sensitise them and even the new users prefer to buy the old schemes.
3. **Providing customers with a reason for buying a particular product in preference to the competing banks:** The tools of sales promotion are found effective in convincing customer by explaining outstanding properties of features of their schemes or services. By making a comparative analysis of their schemes. By doing such, they draw the attention of customer and when the succeed in convincing the customer or the prospects.
4. **Encouraging exiting user to take a scheme more frequently:** The frequent in business focuses in transformation of actual customers into habitual customers. The tools of sales promotion ate found effectively in encouraging the existing user to take a scheme not only one time but to repeat the same again. The process of keeping customers for the longtime helps bank in increasing the business. The increase in the number of scheme is also possible since the customers are induced by the promotional incentives offered to them.
5. **Counteracting the effects of a downward trend in demand:** In almost all the organizations, we find some selected period sensitive to stimulate demand and on the other hand, we also find of period during which the demand cycle is slowed down. It becomes essential that the business organizations counteract the losses mainly during the incentive period of business. In the banking organizations, We find sales promotion instrumental in counteracting the losses which are due mainly to the demand fluctuation which is influenced by a number of factors. The customers evince interests in getting the schemes induced by the tools of sales promotion.
6. **Bankers are induced to increase the business:** We are well aware of the fact that in the sales promotion whatever the incentives are offered to the bankers are known as bankers promotion. The bankers to get more incentives make sincere efforts to influence and win over the customers. The incentives are found effective for a limited period during which an increase in the business of banks helps achieving the target of deposits which in the normal working days is not achieved. Thus, we find instrumentality of sales promotion albeit in motivating the bankers.

7. **A sense of competition amongst the bankers increase the efficiency:** It is also right to mention that for a different areas whatever the target are fixed to help in generating a sense of competition, especially amongst the managers working in the different branches. Since the incentives are linked to the scale of business almost all the bankers working in a command area make concerted efforts to touch the target for the branch, We also find grading of branch in the basis of business and the injects new life to the bankers to reach the target.

   The aforesaid facts are a staunch testimony to this proposition that the tools of sales promotion are found significant to the Nanking organizations in many ways. It is against this background that organizations in general are found using this component of the promotion mix. The foreign banks even in the sales promotion incentives are found establishing an edge over the public sector commercial banks. No doubt in it that the public sector commercial banks are also realized the instrumentality of sales promotion in increasing the business but they need to assign due weight age to the same. By strengthening the sales promotion measures they would only not induce the bankers and the customers but in addition an increase in the business of old as well as new schemes can't be ruled out. This collects enough arguments in favor of sales promotions. The main thing in the very context is to select the appropriate moment and to fix the duration of sales promotion. Innovative sakes promotion measures would be very much effective in sharpening the instrumentality of promotion. This makes it essential that to get the best result, the bank professional male innovative efforts.

8. **Tools of sales promotion:** The instrumentality of sales promotion is substantially influenced by its nature. More innovative the tools of sales promotion, more positive are the results. It is not essential that you just copy the tools adopted by your competitors but it is wisdom that you know about the tools of your competitors and show your professional excellence in making them suitable to the changing needs and requirements of customers/bankers. We can't negate the fact that your innovative and lucrative tools would help you in getting more business.

   It is natural that the banking organizations like other organizations also think in favor of optimal incentives to the bankers. In the goods manufacturing organizations whatever the incentives are offered to the consumer, we call them consumer promotion. Like this, the banking organization makes provisions for the bankers, agents, representatives engaged in business and helping the organizations in increasing the business. There are a number of tools generally used in different categories of organizations in the face of nature of goods and services. Since we go through the problem with the view point of banks, it is pertinent that the tools of sales promotion specially for the bankers are linked to the efforts, excellence needed for increasing the business. At the outset, we go through the consumer promotion and focus on the different tools which are used or can be used in the very context.

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

1. **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 and the 'pull' factor consists of:

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

(b) **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.

(c) **Freebies:** These are free items bundled with the offer sale. They can be intra-brand (for example, McDonald's offering another burger free with the purchase of one) or inter-brand (Pizza Hut offering Mattel toys free with their offer). Pure service freebies also exist: Kotak Bank offering free insurance with their home loans.

(d) **Coupons:** These can be exchanged for services or goods either free or at a discount. Coupons are also used to measure the effectiveness of advertising campaigns for sales goals.

(e) **Samples:** These are used to boost trials, especially in the introductory stages. These again might seem to be impossible in services (one can't imagine Alitalia offering a free chukker for potential customers. But it is possible for internet service providers to offer a month of free trial, for housing companies to have sample flats/apartments ready, etc.

(f) **Cash refunds:** This is used for loyalty programmes.

(g) **Prizes:** This is in the form of lucky draws from purchases made. Re-routinely use this promotion.

(h) **Demonstrations:** This is used to introduce the customer to a new service (like ATM), make him knowledgeable about certain features and functions etc.

(i) **Contests:** These are directed at the participative nature of customer and are used to increase the involvement of the customers.

2. **Intermediaries:** Middlemen like retailers, dealers and stockists are the beneficiaries of 'push' factors, which are in the form of:

(a) Margins;

(b) Credits;

(c) Discounts;

(d) Free goods;

(e) Shelf-space display incentives;

(f) Advertising and other promotion allowances;

(g) Co-operative advertising (the service firm and the retailer sharing the expenses of print advertisement or the exhibition);

(h) Distribution of awards.

3. **Internal customers (sales force).** Mostly sales force of the service firm are the beneficiaries of the 'push' factor, which consists of:

(a) Bonuses;

(b) Contests;

(c) Awards and prizes.

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Concentration on boosting albeit temporarily, sales, does make this promotion at variance with marketing goals and other communication mixes. It is therefore very necessary for the marketer to be systematic in his sales promotion programme. The following is a guideline to develop a promotion programme:

1. Decide on the sales promotion objectives and the co-ordinates vis-a-vis other communication mixes.
2. Balance the sales promotion amongst customers, internal customers and intermediaries.
3. Decide on the sales promotion tools to be used'
4. Determine the amount of incentives.
5. Establish conditions of involvement.
6. Decide on the tenure of the promotions.
7. Select the distribution method of promotion.
8. Make a promotion timetable.
9. Decide on the promotion budget.
10. Pre-test the promotion for its effectiveness.
11. Launch the sales programme.
12. Evaluate the promotion programme.

6.4.4 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 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. Some of the service sectors that have been greatly benefited by personal selling are insurance, financial products from banks like credit cards, tour packages, medical services, etc.

Personal selling can be made effective in the following seven ways:

1. **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:

   (a) **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.

   (b) **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.

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(c) **Management of impressions:** Visual, aural, touch-and-feel factors and activities can be used effectively to leave lasting impressions. Housing companies have small models of their past, present and future projects strewn across their office. Service scape management is used effectively to create good impressions; Soft music was introduced by moribund public sector banks in an attempt to imitate the atmospherics of foreign banks,

(d) **Inducing the customer to participate positively:** Many service firms have inducted the customers into their processes. Executive buffet lunch providers and shopping centres with self-service are enduring examples.

2. **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.

3. **Making the service tangible:** This can be done in the following ways:

   (a) **Evaluative criteria:** The service marketer (say, for example, a business school) can help buyers determine what they are looking for (academic excellence, good faculty, placement efforts, extra-curricular activities, industry interfaces, projects and training etc.)

   (b) **Comparative analysis:** The buyer can be assisted on comparing the offer with other services - direct, indirect or substitutes. The Internet has been most helpful for the buyers. The latter are now in a position to compare features, benefits, add-ons etc. very quickly.

   (c) Differential advantages: Buyers can be made aware of the unique value effect of the service offer.

4. **Emphasis on the image of the organization.** 'More often than not, the customer equates the image of the sales personnel with that of the firm. The service marketer should find out the images of the generic service, firm and the sales representative held by the buyer and communicate the relevant images to him.

5. **Use of references from external sources:** The service marketer should use satisfied customers as sources of referral and a positive word-of-mouth publicity campaign. This will increase the neutrality of the message.

6. **Recognition of importance of customer-contact personnel:** If different service providers are meeting a customer in each of his encounters, the service firm loses an opportunity to know him very well. This superficial knowledge will make the providers insensitive to the customer's in-depth needs, wants and expectations. There should be minimal contact personnel interacting with a customer. The 'moments of truth' concept has to be ingrained in all service personnel.

7. **Recognition of customer involvement during the service design process:** The customer's feedback and other reactions are actually the starting point for new product development of a service firm. Blueprints are made airtight by eliciting responses from the customer.

   Successful personal selling requires highly trained and motivated staff that can bring in revenues for the service firm.

6.4.5 Direct Marketing

This is being increasingly adopted service firms for their communication mix. The advantages over mass marketing are many:

Personalization

Unlike communication for mass marketing, here personalization of the message, method or technique of communication impossible. This would make the communication objective effective. The personalization can be in the language used, levels of vocabulary and articulation, depth of conceptual understanding and extent of persuasion and media.

Cost-effective

It becomes prohibitively expensive for a small and medium service-marketer to use mass media for communication. Even if used, it may not suit his purpose in reaching his target audience, especially if they are a niche segment. Direct marketing enables that service marketer to be cost effective, that is, reaching his desired target audience with his limited resources.

Instant Feedback

A major disadvantage of mass marketing is its inability to channel the feedbacks from customers for effective utilization. Sincere feedbacks can be used by the service marketer in new product development as well as in the fine-tuning of service blueprints. This is possible in direct marketing where, in the service-and-selling encounter, the reactions of the customers are observed by the alert and sensitive direct marketer.

The service marketer is in direct contact with the customer - which can be personalized. Personal selling to different customers in an individual capacity, face-to-face is also known as micromarketing. Some of the popular direct marketing tools are:

Direct Mail or Database Marketing:

Here a database of customers - present and potential - is the major asset of the service marketer, increasing his market penetration. The marketer can either gather the database himself or acquire it from others. American Express can and does take the database of the subscribers of India Today to mail-market its credit cards. An issue of ethics rears its head here popularizing the new jargon, ‘permission marketing’,

- Mail order or catalogue
- Direct selling
- Direct response
- Telemarketing
- Internet marketing.

6.5 LET US SUM UP

The word ‘promotion’ is derived from the Latin word ‘promovere’, meaning ‘an attempt to shift the attention of people from one end of the spectrum (disinterest) to the other interest)’. Advertising, public relations, sales promotions, personal selling and direct marketing are the part of promotion or communication mix. Steps in designing an effective communication mix

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include: Identify the target audience or receivers; determine the promotion objectives; develop the message; Select the communication mix or the promotion blend; Select the media vehicle; and Set up systems for feedback and feed forward. According to AIDA model, the service consumer moves through various stages in sequence. The customer is first aware of the service brand, which will generate interest and then desire in the offer. Once the desire is present, the customer is motivated or 'driven' to purchase the service product. The whole sequence grinds to a halt even if one of the tasks is unachieved. This implies that without even basic consumer awareness, the service marketer cannot hope for any sales. Six basic guidelines which a marketer must keep in mind while designing a promotion mix are: tangible cues, make the service comprehensible, communications continuity, promising what is possible, capitalizing on word of mouth and direct communications to employees. 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 advertising as a communication tool. Selection of a particular type of media foe advertising would depend on the characteristics of the medium, atmospherics, coverage and comparative costs. 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. Sales promotions are incentives tools used to temporarily boost sales. They are targeted at three types' audiences: customers, intermediaries and internal customers. Concentration on boosting, albeit temporarily, sales, does make this promotion at variance with marketing goals and other communication mixes. It is therefore very necessary for the marketer to be systematic in his sales promotion programme. 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. Direct marketing is increasing being used as a promotional technique due to its personalization, instant feedback and cost effectiveness.

6.6 KEYWORDS

- ***Service scape:*** tangible cues related to service like equipments, logo, signage etc.
- ***Feed forward:*** pretest taken before message is delivered
- ***Advertising:*** to turn people to ideas
- ***Personal relations:*** efforts to increase goodwill of the organization
- ***Freebies:*** offering free goods or service with core service
- ***Personal selling:*** personal confrontation
- ***Permission marketing:*** done with prior permission of the customers

6.7 QUESTIONS FOR DISCUSSION

1. To what extent does the intangibility of banking services influence the promotional methods used by them?
2. Why do you think that certain service organizations consider sales promotion to be unethical?
3. What is the link between promotional of services and internal marketing?

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4. To what extent can application of direct marketing be effective in promotion of an insurance company?
5. Public Relations may be more effective promotional tool for services than other in case of banking industry. Do you agree? Give reasons.
6. Identify the problems likely to be faced by banking and insurance sector in evaluating effectiveness of its promotion for newly launched services.

6.8 SUGGESTED READINGS

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- Balachnadran S, Customer Driven Service Management, Response Books, New Delhi

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UNIT 7: PEOPLE, PROCESS AND DISTRIBUTION

Structure

7.0 OBJECTIVES

After going through this unit, you will be able to:

- Understand how sales force is managed
- Define selling process and distribution strategy

7.1 INTRODUCTION

After studying the product, price and promotion strategy, we will now study the other Ps of service marketing, promotion, people, process and place (distribution). Owing to increasing completion in the financial services sector, especially in insurance and banking, promotion has gained importance. Managing sales force is also importance as these services require personal confrontation and expert knowledge. Selling process is the way in which the service delivery is carried out. it is very important for the marketers to realize that the process is carried out in a phased manner without many hassles.

7.2 PEOPLE: MANAGING THE SALES FORCE

For services, due partly to its characteristics of intangibility and variability, people mostly its internal customers – have become one of the most important strategic variables. They, therefore, are the main differentiators for the service firm. For example, there are many insurance and banking companies in India. Some of the more important ways in which they can effectively differentiate themselves is through its faculty and staff quality (internal customers), pedagogy (process), infrastructure and facilities (process and physical evidences), etc.

There could be two service organizations in the same business proposition, having the advantage of same equipments, technology and complementary goods. Nevertheless, they could be perceived to be radically different in their approach to customer service and consistency in service delivery. Some of the ways in which the internal customers and contribute to unique and positive differentiation of the service firm are.

Communicability

The term "internal customers" includes employees of the service firm, channel partners like Direct Sales Agents (DSAs), retailers, franchises, etc., and Business process Outsources (BPOs). A better skilled and trained internal customer would be able to communicate better with the external customer . This includes an incisive analysis of the customer's needs, his levels of comprehension (feed forward), assimilation and choice of encoding symbols, message formulation and delivery. This helps the internal customers to be persuasive in his communication – making the customer understand and believe in the concept of the service. The latter is a major inherent drawback that is derived from intangibility. The quality of the provider's interaction with the customers is also very high, leaving a lasting impression of good customer service and satisfaction.

Transaction

A highly trained and skilled provider will be able to deliver high quality service. The quality of transaction will have minimal service failures; and if there are such unfortunate incidents, then there will be scope for swift service recoveries. The customer now has his service experience to help him in differentiating the particular service firm from his others in the offer design and service delivery. The quality of service transaction is also dependent on the moods, involvement, orientation and experience of the internal customers. the customer encounters 'Moments of Truth' and carries home the experience as the evidence of quality of the service firm.

Consistency

Only a highly trained cadre of internal customers would be able to consistently deliver the service at all levels and at all times. The consistency is not only in the individual provider's performance, say Monday through Saturday, but also amongst all other providers of the service firm. Everyone seems to possess the same high skills in uniformity that makes it hard for the customer to detect any change in the service delivery. This goes a long way on putting the customer in comport zones, preventing him from having any felling of fear, anxiety or dissonance.

7.2.1 Types of Conflicts

One of the most important aspects that go unappreciated by marketing professionals is the challenge in managing internal customers and their conflicts arising out of boundary spanning

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positions. The service personnel are expected to be efficient and highly productive to be considered as contributing member. Simultaneously, he is expected to deliver the highest quality of customer service in the encounter, be courteous to customers and give them the best service experiences. This sets the stage for a series of conflicts-due to the difference in needs and expectations of three customers, the company and the service provider. This calls for care in job design and the recruitment of service personnel with right aptitude and attitude. The different types of conflicts that arise out of boundary spanning roles are outlined below.

Role Conflicts

The customer and the provider both have definite roles to play-exactly like a script of a theatre play. If even one of them decides to deviate from the 'script' the quality of service transaction may get affected. Role conflicts occur when each of the partners to the service transaction has a different self-perception of their respective roles. For example, in a retail bank, a customer might perceive that the service providers would be meek and subservient, and mistake professional and dignified demeanor as a slight, and feel that the service providers have a 'don't care', or arrogant, attitude.

Likewise, the service provider might not be comfortable to display false bonhomie, i.e.; wide smile to those customers whom he doesn't like. He may not want to carry on a role in customer's service as he feels it is demeaning to his stature. A retail banking customer's relations executive might be required to serve water to the clients or escort the clients in and out of the bank; these things can harbor resentment at the perceived indignity.

Organization/Client conflicts

The triangular relationship amongst the client, service providers and the service firm gives ride to certain conflicts of interests. This conflict is prominent when the client desires a service, which the service firm disapproves of or is one that violates the guidelines laid down by the them. When the service employee is dedicated to the client and strives to give the best possible customers service, a curious loyalty reversal takes places. Echoing the 'Stockholm Syndrome', the service provider, due to the boundary spanning rules, begins to advocate the cause of the client more than that of the organization. Egalitarian service firms like Nordstrom empathize and encourage this, having seen from experience that this only increases their bottom line. This is due to the fact that customers, attracted by the high level of customers service becomes, loyal, do repeat and value purchase, generating more profit and growth for the firm. Non–appreciating service firms perceive this as betrayal and the conflict sets in.

It is easy to see the unfairness of it all from the service personnels point –of-view. On the one hand, the organization wants them to the customers–friendly and do the utmost achieve service excellence. On the other hand, in the process of customer's bondage, the loyalty is questioned.

The case of Nordstrom, chosen carefully for this lesson highlights how and organization can solve such conflicts by empowering their employees.

Inter-client Conflicts

Different customers or clients have different needs. This implies that the same service provider, coming across different customer expectations and needs, has to deal with different' 'script' from the customers – all in a day, maybe. For example, some customers of a bank might have knowledge of loan application procedure and some customers may not know anything and take a long time to understand the procedure. The management of the bank is very tolerant about the length of time that customers can stay on. Both the customers have different needs and the relations officer and the manger have to deal with them differently. Conflicts also arise in different ways while dealing with clients. As much as it is difficult for patents to distribute their love uniformly to all their children so it is for service providers to be non-partisan in their affection and attention to all their service personnel. Over-sensitive customers or clients might accuse them, often wrongly, of bias or prejudice. This might generate complaints from the ‘injured’ client.

Inter-client conflicts could also arise due to either the over-enthusiasm of a service provider on playing the role of the affable middleman, or on account of natural gaps in communication.

7.2.2 Managing Conflicts

A service marketer should do all it can to reduce conflicts as much as possible. This can be achieved by keeping channels of communication open between the service provider and the company. Potential conflicts that might arise because of the designated role can be minimized by talking to the service provider, find his comfort zone, and train him with requisite skills. It can be solved very early on during the selection/recruitment process, by choosing the right personnel with the temperament, aptitude. The final irony– that conflicts can actually rise due to the intervention of the service personnel to reduce conflicts-would be difficult to perceive, but it is nevertheless true. The boundary spanning roles of the service provider might make him take the onus of stepping in, and being activist, to sort out problem and issues. This might bring min more inter-personal conflicts, generate more issues and bones of contention, and quite simply end up in bigger and mishandled messes.

Human Resource Development

N R Narayana Murthy, the Chief Mentor of Infosys has once made a memorable remark about Indians software jewel: “My assets walk away home at the end of the day”. Very simply and succinctly, he conveyed the real issue in a service firm – that their most important asset for garnering a competitive advantage and distinctive positioning was its internal customers. Some of the ways with which Human Resource Department can convert the people factor, which is generally perceived as liability, into assets that add to its competitive advantage are.

Training: training becomes a key tool in the hands of the HRD manager to minimize arability, inseparability and-by enhancing capability –ensure quality, which impacts positively on the bottom line. Training can bring at par all those employees who are lagging behind some of their peers in skills and capability. This would give the image and impression of consistent in service delivery to the customers. For example, all the employees of life insurance would pitch the same plan to similar customers with accepted level of courtesy, only due to the training in soft skills imparted to them.

A service firm needs to have not one, two or a few key personnel in their ranks but a whole lot of them. Otherwise the service firm becomes overtly dependent on a few, making them overworked (and thus liable to suffer from burnouts). In another perspective, these few competent people could actually turn out to be liabilities, emotionally blackmailing the firm, hijacking innovation and stifling growth. A rash of B-schools, which opened in the last decade, went to town with their respective director’s name prominently displayed in all publicity, banking only on them. Sanjaya Arora, the very talented head fund manager of Alliance mutual is one such classic case. Fully dependent on him, Alliance went a long way to protect and retain him inspite of allegation and evidence against him for insider trading. Arora went to the extent of advising, wrongly, Alliance on not to sell, forcing them to liquidate their stocks in the market, bit by bit, and making them lose a lot potentially. Arora,s competency in astute (or with insider trading?) fund management made Alliance overlook corporate governance, and

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he become a liability when stock market watchdog Securities Exchange Board of India (SEBI)banned him from trading.

Similar is the case with small hospitals and clinics, which fully depend on or two key doctors: the hospitals tend to be small and provincial. Big hospitals like Apollo, Forties, KEM, Dr. Reddy's, etc., are institutional in culture and not personality based.

Motivation and Rewards: Appreciations, rewards, promotions, improved profiles all go a long way in motivating the internal customers to heights of better performance. These HR tools are especially challenged for effectiveness in the dreary and monotonous workplaces like Business process Outsourcing firms (including call centers), where the average age of the employees are in the mid-twenties.

Creating the Right Firm

Policies, procedures and rules: To create the right firm, a culture of transparency, team work and work ethics has to percolate down from the top. The ball can be ser rolling, by designing broad-minded polices, clear-cut procedural guidelines and humane rules.

Organization perceives that the frontline staffs are-and should be-dispensable. They avoid making the job challenging and are not interested in adding authority and responsibility to the profiles. This makes it easy for the frontline jobs, where, incidentally, there are chances for maximum customer contacts, to be filled by non-ambitious and unquestioning personnel, who are mostly "temps" Business process outsourcing firms have taken a lead in business model through temporary workers; it seems to make sense for a service firm from the point of view of cost management. But what it really gets is uninvolved unthinking and non-innovative front live people. Idea generation (ideation) is minimal and the result of taking non-rebellious, non-creative and docile personas is that the service firm lacks dynamism and vibrancy. The customers is on the receiving end of bad service Neither do the 'temps' make any demand on the management and nor does the latter have any expectations from the former. According to a study, 'temps' earn 40% less than permanent works, 53% of whom are women, 60% of women have children under 18.

Empowerment and Enfranchisement

To create the spirit of entrepreneurship inside the firm (also known as entrepreneurship from ideation, business analysis, product development, and launch to day-to-day management of the business, the internal customers should be appropriately empowered and enfranchised. When employees are given discretionary powers to deal with customers creatively, and as they best deem fit in that situation, without having to always refer to their superiors, then this act of management is termed as empowerment. Enfranchisement in addition makes provision for rewarding the employees for performance achievement. The success of a service, its marketing and its satisfaction entirely depends upon its operations and processes, operators and providers. The best of features from the most popular service products will never alone be successful in retaining customers of the quality of service transactions is perceives to be poor.

The quality of service transaction would largely depend on the following traits and characteristics of operators and providers:

1. His competence and skill for the job specified in the service transaction. For example, a teacher of a high school who is trained on pedagogy (teaching methods) and class handing and is well qualified will be in a better position to deliver in a classroom than a svelte socialite.

2. His knowledge of details of service products features and benefits. for example a teacher of a high school who is well versed with airline offerings, tariff details conditions, riders and add-ons will have a greater positive influence on the service transaction than a new-on the –job trainee.
3. His attitude, moods, personality and feelings of involvement with the customer's transaction, job, department and company. For example, the negative attitude of a bank clerk will make him different to an enquiry or request from a customer. His attitude will make him find fault with his colleagues and prevent him from being a team player.

   The varying moods of the clerk might male his service delivery inconsistent; sometimes he might be enthusiastic and be the friendliest bankers of the neighbourhood while at other times he might not even recognize the customer.

   E.g.: between two insurance agents there could be a yawning gap on customer acquisition, handing and retention. The difference could be their personality: while the extrovert agent might floor the customers with his high voltage presentation, glib explanations and aura of past success, an introvert, diffident agent might not brings out the confidence in a customer other then arousing sympathy in him.

   Involvement of the employee can be of the following levels:

   (a) Suggestion involvement: this empowers employees to come up with ideations and recommendations in improving service process, in communications developing new products, etc.
   (b) Job involvement: Employees are empowers to come with ideation and recommendations in improving service process, in communication, developing new products, etc.
   (c) High involvement: The lowest of employees are given the chance to make a positive contribution to the firm's performance. Employees are given alround training in business operation, working through teams and in analytical and problem solving tasks.
4. His presence of mind and speed of response. Often an error in a transaction process spotted early would save the customers as well as the service provider a lot of time, money and effort. But it is equally more important to move fat in rectifying the error.

   During the recent cash-out (or 'run' on the bank, in banking parlance) at ICICI bank, the bank personnel moved fast to fill the ATMs and the retail branches with cash and stem the panic.

   Training: This becomes a major tool kin the hands of the service-oriented firm to improve the quality of its providers. The internal customers are constantly updated in product, environment and customer's knowledge. The entire team is bought to one level of competence and capability so that service delivery is consistent.

   Recruitment: if the firm is starting from scratch, then it can lay a lot of stress on its recruitment and selection to acquire better quality of service providers. It, in the long term, goes on to reduce its training costs continuous recruitment of enthusiastic and positive attitude people from campus goes on to enhance the company's brand image infuse fresh talent and energy.

Channel partners, Franchisees and BPOs

In the quest for rapid expansion and lower operating costs, the options in service delivery have included such intermediaries as agents, retailers, franchisees and Business process Outsourcers. Such channel partners are challenging service marketers to:

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- Achieve consistencies and homogeneity in service deliveries
- Alignment with the organization's mission and vision
- Retaining fidelity of know –how of operations, and
- Loyalty in partnerships.
- Training of the channel partners in all aspects of the business, including accounting standards, service operations, management information systems and brand custody;
- Partnering with sincerity, and
- Honest collaboration with close monitoring of activities and quality systems through MIS.

There was always the danger, of course, that one of the franchises might break away to start off on their own, with the know-how gleaned from the franchiser.

7.2.3 Need for Internal Marketing

A successful service firm known for its customer service and responsiveness concentrates a lot on internal marketing. Enabling the internal marketer through training, quality of work life, incentives, work culture, motivation, recognition are some of the winning strategies. Internal marketing philosophy is based on the facts that internal customers are both producers and suppliers of service offers and that they have to work in group or in a team. Rarely is any service in and organization delivered in isolation. Any internal marketing strategy should be designed keeping these points in mind. The intent of all internal marketing activities should be to bring in an element of cohesiveness with all activities that goes on to touch the customer. It could be in corporate and external communications like public relations activities or advertising; routine mails and telephone calls also come under this, as much as handing enquiries, complaints and the main activity of producing and delivering the service.

Internal marketing also implies that process mapping and setting up of quality benchmarks are critical. Many service firms are adopting ISO 9000 and Six Sigma standards in quality as well as in security procedures. Yet, there is a range of structured and informal activities under internal marketing. Most problems amongst groups begin and end with communication gaps. Wrong communication not only males fellow group or team members perceive the message in a different light but can also give wrong expectations ,leading to misunderstanding, disappointments and ultimately de-motivation amongst employees and dilution of firm loyalty, effectives internal marketing, like the trumpet calls in army; could go on to the key different light but can also give wrong expectations, leading to misunderstanding ,disappointments and ultimately de-motivation amongst employees and dilution of fir loyalty. Effective internal marketing, like the trumpet calls in an army, could go on to be the key differentiator for a service firm. It is also effective in reducing conflicts as well as making people wiser by learning through experience. The experiential learning makes the employees come to their own conclusions.

7.2.4 Managing Consumer Waiting Periods

Most good customer service benchmarks include the length of the waiting time-in airlines, banking, health service, shopping, etc, customers tend to lose patience, and service firm has to agonize in choosing speed over security. But the word over, delayed service is perceived inefficiency. Waiting time management is a challenge but can be creatively handled. Banks in their retail branches have ergonomically designed lounges, magazines and softly played televisions. Some examples of customer wait management:

1. Keep the customer occupied – reading magazines, listening to music or viewing TV.
2. Convey to the customer that the service process has began; it will make less fidgety. Bankers start the preliminary paperwork processes and start enquiring about the nature of service sought by the customer.
3. Makes attempts to reassure the customers as anxiety makes waiting feel longer.
4. Share all the information possible with the customers, as this will reduce the anxiety level and give them cues for getting occupied.
5. Do not make it evident that some customers are more equal than others discrimination will make customers indignant and restive.
6. Try to encourage customers to interact with each other as this will keep them occupied and engaged. If they are alone, then wait might seem interminable.

7.3 PROCESS

7.3.1 Blueprinting

The service encounter is difficult to describe with accuracy and therefore there is a lot of subjects in its analysis. This inconsistency (variability) prevents quality measurement. This has given rise to many methodologies in service encounter analysis and measurements which seek to 'map' the service process. With such a 'map' and 'scripts', it is possible to be systematic in the encounter analysis. This process is called 'blueprinting'. Blueprinting has given rise to other methodologies like 'servuction'.

To facilitate maximum satisfaction to the customers, more inputs were added to the service delivery. Service evolved from very simple steps to complex processes, and there arose a need for the marketer to get a 'birds' eye view, of the whole process. Blueprinting is flowcharting of a service operation. This methodology was devised by Lyn Shostack in 1984, to help out new service firms in mapping the sequences before the beginning of service delivery or any encounter. This would help the service manager in identifying areas of potential failures, and weak service delivery points and identify solutions to overcome them.

This would prevent the manager from learning by costly trial and error. It (blueprinting) also enables marketing managers to understand the parts of the operating system that are visible to the consumer and hence parts of the servuction system.

Service Blueprint Components

- **Customer Action: Time of Interaction**
- **"Onstage" Contact Employee Actions: Time of Visibility**
- **"Backstage" Contact Actions: Time of Internal Actions**
- **Invisible Support Actions**

The service blueprint components consist of customer interaction, on-stage contact employee actions, backstage contact employee actions, Invisible support actions and processes. Customer interaction is in the 'line of interaction' in the blueprint. for example, in travel agency, customer interaction is on the phone for tickers and reservations, over the counter for foreign exchange transaction or across a desk of the package tour itinerary designer. The line of visibility is for the onstage contact employee actions. Thus a customer for foreign exchange and tour package will be in the line of visibility. In the line of internal interaction is the backstage employee interaction. Here the tour guide or car pool operator will interact with the tour group marketer

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or itinerary designer. The invisible support will be the system personnel who will ensure online connections to the other branches, human resource personnel undertaking training and the branch administrator supervising the branch.

Why Blueprinting?

The objective of blueprinting is to show information, assets and customers are processed. To put all of them in a blueprint is to imply that they are elements of uncertainty.

The following are the benefits of blueprinting a service process:

- Through blueprinting, marketing and operations personnel are able to communicate with each other on paper before they do so in real time.
- It providers a check on logical flow of the whole process.
- Bottlenecks represent points in a system where the consumer waits the longest. This identification would help the service manager understand the reasons for the delay and come out with solutions.
- **Balanced Production Line:** this implies that process times and inventories of all steps are the same. If not, the consumer never waits for the next process this implies for the service manager that there will be incomplete service experience.
- It is an effective tool for managers to recognize the benefits of a changing system to process consumers more effectively.
- It helps the marketer to set target timers initially based on consumers' expected level of service.

Steps in Designing a Blueprint

1. **Identify the process to be blueprint:** this implies again that it would be impossible to blueprint the complete processes of the service provider in one format. The individual processes ate to be identified for blueprinting. The summation of such processes would give the whole picture to the manager. Each process would by itself be an issue, and particular problem identification and appropriate solution formulation would be easier.
2. **Map process from the customer's point of view:** through this method, the customer's comfort zones can be identified. Professes can be modified if it is found that customers ate not very comfortable with certain sequences. Consumers possess purchasing scripts that guide their thinking and behaviour during service encounters. The blueprint development process identifies steps where the system can go away process involves specifying the timeframe of service execution.
3. **Draw line of interaction:** the line of visibility and the line of interaction have to be drawn clearly. The areas of interaction affect service experience the most.
4. **Draw the line of visibility:** these are processes in zones that are visible to the customers and in which the customer is most likely to participate. There are also the invisible zones which consist of processes and interactions that are necessary for servicing the customer but are hidden from his view. In a bank, this would include checking the credit-worthiness of clients, processing of documents', dispatch section operations, etc.
5. Map process from customer contact persons view, distinguishing visible activities from those that are invisible.
6. Draw line of internal interaction.
7. Link customer and contact person activities to needed support functions.

Fail points

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There are major possibilities of fail points in the service delivery system. Although service failures do follow Murphy's Law (whatever can go wrong will go wrong) and cannot be avoided in spite of the best of planning, it can certainly be minimized by blueprinting. There are three characteristics to these fail points which the service marketer would do well to observe and analyze for its implications. They are:

1. The potential for operations malfunction is high
2. Results of the malfunction are very visible to consumers.
3. System malfunctions is regarded by consumers as particularly significant.

7.3.2 SERVICE DELIVERY PROCESS IN BANKS

A service delivery system is a system designed to provide customers a service with features to differentiate it from the competition. The alternatives for reaching these objectives must be identified and analyzed before decisions can be made. Designing a service delivery system has to take onto account factors such as location, facility design, layout for effective customer service, workflow, etc. once a services rendered as the circumstances of the case warrant.

This is never truer than in the case of the services rendered by bank. Banks in the Indian context have several competitors, all of them trying to provide the same basic service and trying to distinguish it from their competitors, service delivery systems. What the banks all over the world are trying to achieve is to differentiate the experience of their customers when they render their service to them and at the same time optimize all those activities which are not directly involved with the customer in the service delivery system. The trick to achieve this dual objective to delineate the activities involved in the service delivery system into two categories:

1. Activities which are above the line of visibility, i.e., activities from which customer obtain tangible evidence of service.
2. Activities which are below the line of visibility, i.e., those activities which are hidden from the customers, view and therefore do not need differentiation from those offered by the competitors.

Both these type of activities are kept physically separate, but in effect are interlinked by communication. This also stresses that those operations above the line of visibility are needed to be given special attention. This calls for a method to describe the service delivery system in graphical terms: a process called' service delivery blueprinting,. Using blueprinting, banks differentiate between the back office and front office operations, carried out with concern for ambience and effectiveness whereas the back office activities are carried out with concern for optimization and efficiency.

Given below is the service blueprint of a typical bank lending operation. All those activities undertaken by the bank from the initialization of the loan proposal to the activity of closing the account are covered in the blueprint. Critical decisions to be taken by the bank employees such as whether to grant the loan or not, are given in the decision box where ordinary activities are given in normal rectangular boxes. Also, the time taken for important activities is given next to the boxes. The blueprint is the map or flowchart of all transactions that constitute the service delivery process. Some activities are processing information, others represent interaction with customers and some are key decision points.

Blueprints enable managers to find areas for improvement as well as fail points, i.e., the points at which any mistake would mean huge costs for correction and rectification. The thick red

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line separating the high and low customer contact activities decides which activity is done in full view of the customer and which is not. This can help the bank to decide which activities are to be done efficiently and which are to be done with ambivalence but effectively.

Strategic Positioning through Process Structure

After the preparation of the blueprint for the bank's service delivery chart, the next step is the determination of the complexity and the divergence desired in the services. In the era of competition, banks often find that their competitors are offering very similar services and hence their potential customers are finding it difficult to distinguish between their service and those of their competitors. The steps and sequences in the process captured by the service blueprint and measured by the number and intricacy of the steps represent the degree of complexity of the bank's service delivery structure. For example, the opening of a standard savings account would be a far less complicated activity than an opening of a customized high value personal account.

The amount of discretion or freedom allowed to the service provider to customize the service is the degree of divergence allowed. The two dimensions of complexity and divergence allow the bank to create a market positioning chart for its services. Banks like Bank of Baroda would adopt a low divergence banking service in order to attract customers from the middle class who merely wish to open a savings account, whereas banks like Citibank would also opt for a high-divergence service such as premium banking in order to attract high volume customers who expect - and are used to – preferential treatment.

Ageneric savings account represents a low divergence strategy whereas a premium banking account represents a high divergence strategy. High divergence is a niche strategy that seeks out customers willing to pay extra for personalization. Narrowing the scope of service by specialization is a focused strategy that results in low complexity. For such a strategy to succeed, the service must be unique or of a certain importance. In order to attract more customers or to maximize revenue from each customer, banks can embark on a strategy of adding more services, thereby creating a structure with high complexity.

Benchmarking a Bank's Service

Benchmarking is a management tool whose time has come in banking. It is the process of learning, emulating and exceeding the world's best practices to dramatically prove product and service quality. Benchmarking is a competitive strategy to win market share and a survival strategy for threatened corporations and industries. As the banking industry. Becomes globalized and liberalized, clients anywhere in the world will soon expect the same excellent service from any bank or financial institution offering the same products. The bank that does not undertake benchmarking may lull itself into dangerous complacency and delude itself that it is doing its best or is at its best, while its customers may think otherwise. As customers seek better and better service, those banks that do not do continuous improvement through benchmarking are bound to lose customers and sales rapidly and irreversibly.

What should a bank benchmark? Ideally, it should benchmark process and process targets like service times that matter to customers, rather than financial performance like sales. Assets and volumes, which matter only to management. Benchmarks can be practices or numerical process targets or standards set by the bank's best competitors, whether or not they have been achieved. Quantitative benchmarks are more useful and objective than qualitative ones. They make it easier to assess how far the bank has gone in closing the gap with the best players.

With whom does a bank benchmark itself? Ideally, the bank should first benchmark with its competitors or excellent companies in its industry operating anywhere in the world. Then it can benchmark with its affiliates, sister companies, and subsidiaries, which may be doing certain processes much better than it itself does. Finally, the bank can also benchmark with companies outside their industry whose processes can be adapted to their organization. After benchmarking, the bank can find out how bad or slow or poor it is in certain key processes. The perceived gap with the best player will be the basis of that bank's continuous improvement programmes and goals. Of course, the bank may also find that it may be the best in certain areas; in which case it will benefit from knowing how far behind the second best in the industry is. Benchmarking will tell the bank how much harder it has to work to increase its gap or advantage from the no.2 player - or to close gap between itself and the one(s) ahead of it.

Key Benchmarks for Banks

1. Loan processing is a major area for benchmarking, because customers' expectations are very high from these products. Surprisingly, it is the small and medium banks and organizations that have set the pace in speedy loan processing, approval and release. These nimble organizations are not saddled with the slow bureaucracies of big banks. The benchmarks here are the size of the loan and the corresponding processing time.
2. Tellers and front-line services are another area where aggressive banks have set strict standards that can be benchmarked. Customers have become very sensitive and fastidious about service speed and quality when served by front-line personnel, whether tellers, account executives, or telephone operators.
3. Cheque-clearing time is another area that needs to be improved and benchmarked.
4. An important benchmark is the cost of transaction, because this can impact the very future of banks as information technology changes the economics of financial transactions.

7.4 DISTRIBUTION STRATEGY

7.4.1 What is a Distribution Channel – Especially in Services?

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 middlemen like wholesalers, dealers, retailers, agents etc.

The channel for any offer is extended to the last person or institution that buys it without making any changes in the form of the offer. If there is any change in the form of the offer, then there will be another channel of distribution, For example, for the service channel for a insurance company, two separate channels come into play. The channel for the oranges could be:

Insurance company → personal agent → customers

An alternate channel could be:

Insurance company → middle-men company → customers

7.4.2 Service Location Decisions

The service location decisions depend on:

- Degree and type of contact
- Flexibility in Consumption

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Degree and Type of Contact

Consumers of services are co-producers of the service and therefore the time and of service delivery has to be taken with their consent. While service organization for the sake of deriving economies of scale, would prefer centralized locations of staff and office, customers would prefer local access or proximity to their place of work or homes. Thus, there is always a trade-off between the needs of the two parties in transactions - the producer and the consumer of services.

Q. What makes you choose a bank and a branch?

Ans. ln a disguised market research done by the author for ICICI Bank in 1997, the surprising answer to the question - by an overwhelming majority - consisted basically of one word: Proximity

Strategy: ICICI Bank, India's second largest bank after the reverse merger with ICICI, manages an asset base of about ₹ 1 trillion with a network of about 540 branches and offices and over 1,000 ATMs, making it very attractive for prospective customer to pen an account with it.

The diversity of services and the difference in the production of services in different sectors make it difficult to have uniform location strategies. For example, tourism services are destination-oriented and therefore the service delivery has to be in or near the destination; the location of the service outlet cannot be near the customer's home. But opposite is the case with those services that are high contact, like counseling and personal selling of insurance and can be delivered at a location near the customer. Low contact or heavy- and expensive-equipment based services like Computerized Axio-Tomography (CAT) scanning in neurosurgery and trauma care can be done only at a central location.

Consumers who have a higher frequency usage of services may lay more stress on easy accessibility than casual or infrequent users. For example, many home buyers make their crucial decision of the choice of their address after taking into consideration the proximity of such frequently used services as shopping centers, bus depots or bus stands, railway stations, hospitals, etc. But the same services may not be so high on the priority of a certain category of home buyers. People who do not have any children of school-or college-going age may not value the proximity of educational institutions; those who have their own vehicle for commuting may not want an apartment just because it is close to the bus stand, metro or railway station; younger home owners who do not feel the need for a regular medical checkup may not be willing to pay the higher price demanded by a property due to its proximity to a hospital, etc.

Thus the location to a great extent depends upon the degree of interaction between the provider and the consumer. The interaction can be of the three following types:

- The customer goes to the service provider (students going to a university classroom; restaurant; play in a theatre, etc.)
- The service provider goes to the customer (maintenance services, housekeeping and other cleaning services, personal selling, etc.)
- The service provider and the customer transact from a distance (Business Process Outsourcing services like inbound call handling, outbound calls and telemarketing, back office operations etc; mail order business; Web-based services etc).

When the customer has to go to the service provider, the location of the site becomes very important. A restaurant becomes popular by virtue of its locational advantage. Retailers use location as a strategic tool in line with prevalent 'traffic'; and the 'footfalls' (internal traffic) depend entirely on the former. In a marketing oxymoronic situation if the retail store is able to garner high footfalls in spite of low traffic, then it is an indication of the store's high 'drawing power'. A good example of drawing power is the theme and entertainment park 'Essel World and Water Kingdom' in Mumbai. Located on an island off Borivli, a suburb, it has light traffic but very high footfalls. ICICI Bank's entire strategy of having a high ATM-to-manned- branch ratio was based on the premise of the customer's preference for proximity of money-changing places.

When the service provider goes to the customer, the location becomes less important, provided it is close enough for the customer to visit it once in a while to assure itself of the service provider's presence, and good quality service. Thus an insurance salesman might go to a customer but the latter would be more willing to buy the policy if the provider either lives nearby or has his office in the vicinity. The insurance office or its controlling branch need not be very close to the customer.

Location becomes irrelevant when the customers and providers have a distance between themselves during the transaction. Thus it hardly matters to the millions of customers of telemarketing services who is at the other end of the line and where he is speaking from. The customers of e-tailer amazon.com are from all over the world and no one's complaining about the location of the latter, since it is located in cyberspace and is therefore accessible at all times at the click of a mouse.

To get synergy and benefits of centralized locations as well as local access, many service providers have adopted the 'hub and spoke' system. Courier companies like Airfreight/ DHL, Federal Express use the hub and spoke system for efficient sorting. AII packages are sorted at a centralized location and then sent to their respective destinations. Nagpur, which is centrally located from a pan-India perspective, is the favored hub destination for package delivery services.

Flexibility in Consumption

Service location decisions are greatly influenced by the consumer's willingness to be flexible in the matter of the place where they consume the service. The flexibility depends on the following factors:

- ***Involvement of purchase***

  If the consumer is highly involved with the purchase, and does extensive information search (specialized services for durable and other expensive goods like music systems, cameras, etc.) then he would be willing to travel longer distances to a retailer who would be offering value benefits in competitive or negotiable prices, add-on benefits, specialized customer education and training etc.

  If the consumer has low involvement in the goods and services, like daily necessities such as groceries, wet vegetables, withdrawing cash from the bank, etc., (s)he would prefer easy access to the outlet.

  For impulse purchases, when the big driver is instant gratification, the consumer would be unwilling to travel far and wide to compare the different wares and offers.

- ***Demographic profile factors like age, physical fitness, income etc,***

  Elderly people would definitely find it inconvenient to climb staircases or travel long distances for their personal care services like nursing, physiotherapy, etc. They would prefer home-based services. The opposite would be the case for the youth, especially teenagers, whose main driver would be an opportunity to go away from home. Thus coaching classes, computer education and training and fitness centres can afford to have locations far from the homes, if the target segment is the youth and the teenagers. Similarly, people with higher disposable income and desirous of services at their home would be willing to pay more for such additional services as home delivery tuitions at home and house calls by doctors.

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- ***Whom the service is directed to or offered for***

  If the service is for the maintenance and repair of heavy and immovable goods like a broken-down car, property, lifts etc., then the service provider comes to the customer.

- ***The kind of service***

  If the service is very specialized, then the customer is flexible in his choice of service outlet. If a patient wants the opinion of a neurosurgeon, or the service of a famous cardiac specialist; if a customer requires the help of a faith healer or self-help guru; he is willing to travel a long distance for the service.

7.4.3 A Typology of Service Location Influences

Thus we can develop a typology of service location decisions for inseparable services based on the analysis made above. The typology can be illustrated in the form of a matrix where the inseparable services are classified according to their degree of flexibility in production and consumption.

- When the consumers are very flexible about their points of consumption, but the service production methods cannot be adapted or taken to the customer for delivery, then the type of services are mostly tourism based on destination, theme parks, etc. Thus consumers will have to come to Essel-World, Mumbai or go to TajMahal, Agra, UP, India to experience the service. They are oriented towards the service producers.
- When the consumers are very flexible about their place of consumption of service and the service provider is also flexible about his capability to deliver the service at the place convenient to the customer, then the type of service is like that of mobile banking, 'cool cabs' of Mumbai (where the taxi service comes to the customer with a call on his mobile phone) or mobile retailing. ICICI Bank released, with a blaze of publicity, its first mobile ATM-on-a-van, which would go round the city enabling customers to have access to cash. Usually the cost of such access to a service is higher and the trade-off is against convenience.
- Hospital, emergency and trauma services are the type where the customers are highly inflexible about their place of service delivery (that is, they would be very reluctant to travel to receive their service or incapable themselves) and the service provider is also highly inflexible about service production and delivery (that is, the firm is not adaptable to get the service to the customer, expecting him to come for the service instead). The question that is uppermost in the minds of the service provider and the customer is whether the service can be at all provided or that it can ever take place. If the service is delivered to the customer at his doorstep, then the quality of the service may suffer. Thus the service process design of the trauma centres is such that the victims of accidents are quickly brought in and, after the initial diagnosis, sent to the relevant departments. If there is even a slight delay or a mistake in the initial process the case goes away and the treatment becomes ineffectual. France has a unique method in the treatment of trauma patients, which deals effectively with such eventualities. This uniqueness was highlighted during the tragic car crash and subsequent death of Princess Diana in Paris in September 1997. In the French healthcare system, the trauma care is partially undertaken at the accident site. The ambulance has all the equipment for emergency care, with Para-medical personnel taking considerable care and quality time to make the initial diagnosis and treatment. Despite this, there was criticism from the British press on the duration of the initial trauma treatment process and many alleged that was the reason for the death of the Princess. The famed French health system is much admired and commended, and the medical service organization Medicin sans frontier has been justifiably awarded the Nobel Peace Prize for its social as well as process achievements.

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⑩ When the consumers are not willing or able to travel to avail of certain services but the service provider is capable of bringing the services to his doorstep, then it becomes the fourth type of service. These are mostly services that are oriented towards the customers like services for home building and repairs, immovable home appliances like air-conditioners, refrigerators, home tuitions, music classes, etc. While car repairs are always done in a garage (with the car having to be driven or towed to it), (therefore the service, falls in the second quadrant) many automobile firms (initiated by the now-bankrupt Daewoo which is in the process of being acquired by General Motors and Tata Motors for their respective car and truck divisions) have started their roving 'help' services - repairing the cars on the road or delivering other repair services.

7.4.4 How to Design an Effective Distribution Channel

It is not necessary that firms in similar services should have the same distribution systems. Nor is it necessary for service firms to choose only one distribution system, Insurance firms can choose to distribute its policies through its advisors or agents; through its own employees in branches; or through intermediaries and direct sales agents. ICICI Prudential and OM Kotak are two private insurance companies who sell their products through advisors, the Internet auctioneer Bazee.com, etc.

A service firm should choose a distribution channel in line with its strengths, which would satisfy its customers and beat the competition. The following decisions should be taken sequentially:

Specifying the Role of Distribution

The service firm should be clear about the role it envisages of distribution in the context of the other elements of its marketing mix. The distribution should synchronize with the other marketing orientation and objectives. A courier and package delivery firm can use distribution in order to be as good as the competitors (defensive strategy) or to derive some competitive advantage over the others (offensive strategy). For example, Domino's Pizza has used distribution and not its pizzas (product) to derive competitive advantage. Similarly Grameen Bank of Bangladesh has used its unique distribution methods to become a case study in effective rural banking. There was no creation of expensive retail branches: its banking services were spread through relationships. A customer of some service would bring other customers, gaining incentive points, and would also stand guarantee for them to be responsible for the collection of payments.

ICICI Bank was the first to extensively use ATMs to achieve quick growth, market penetration and avoid the dangers of variability. Ceat Tyres was the first off the mark in setting up company-owned Ceat Shoppe stores.

Selecting the Type of Channel

The service firm must then choose the most suitable distribution channel for its offer which should be effective in achieving the firm's goals. This is where a need for an intermediary would be felt, and a decision on the type of middlemen should be taker accordingly. For a firm in the goods business the array of choices are many - with various benefits and consequences. For example, a book publisher can, at the retailing level, choose from book stores (specialty), catalogue or mail-order; a Web retailer likes amazon.com, discount stores, flea markets (footpath vendors), department stores. Convenience stores (at petrol pumps), and direct marketing firms who use personal selling, etc. The book publisher could also go for middlemen as wholesalers. Similarly, new general insurance entrant Royal Sundaram could choose freelancing agents, direct marketers or mail-orders to achieve its organizational goals. This would be discussed in detail in Channel Types.

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Determining the Intensity of Distribution

The firm has to decide on the intensity of distribution. If it is intensive, then the number of middlemen required would be more at each level of distribution. But if the distribution is limited, as in the introduction or trial stage, say, then there will be less number of middlemen. For example, in the goods business, marketers whose products have high technology and have high obsolescence (Microsoft and computer hardware manufacturers) will need intensive distribution for rapid market penetration. Similar would be the need for marketers of fad merchandise like the Cabbage Patch dolls, Rubik's Cube, 'laser light' pointers, etc., and fashion merchandise. But diamond monolith De Beers would look for limited distribution for its prestige products like Nakshatra Diamonds, underscoring their exclusivity. Services require both intensive and limited distribution. The Play win gaming franchise was spread fast to have the first mover's advantage: Deutsche Bank and Bank America looked for limited distribution to focus on corporate finance and other value-added services and class banking as opposed to SBI's mass banking. Worldwide, coffee latte major Starbucks has chosen intensive distribution while up-market jeweller Tiffany's has limited distribution.

Choosing Specific Intermediaries

Once the service firm has decided on the channel, it now has to choose specific firms. If OM Kotak chooses to sell its insurance online, it could choose from a host of e-business firms like rediff.com, bazee.com, yahoo.com etc. The service firm has to choose specific firms in specific towns that would enable it to cover specific markets. The service marketer should assess the strengths and effectiveness of the intermediary member in achieving the desired market penetration.

7.4.5 Types of Channels/Intermediaries

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

1. **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.
2. **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. Insurance companies use the indirect method, which includes insurance agents.

7.4.6 Factors affecting Choice of Channel

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 behavior. 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

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direct marketing. Thus, cell phone service providers use retailer's 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:** lf the consumers are clustered in a certain geographical area then it would be feasible for the service firm to use its own sales force (computer 'servicing in the Central Business Districts like the Fort area, Nariman Point and Belapur in Mumbai; Nehru Place and Connaught Place in New Delhi; Chowringhee in Kolkata etc.). If the customers are scattered over the geographical area, then travel costs might make having dedicated sales personnel a costly proposition. Intermediaries are used for such market.
- **Size of the service contract:** The size of the service order is large, then the distribution is most of the time direct; if the service order size is small, then intermediaries are used. Radhakrishna Hospitality Services is in the catering and food supply business and has a turnover of over Rs. 600 crore; it prefers use its own sales personnel to service large business orders. Re diffusion Dentsu young and Rubicam, the advertising agency, would service its clients through its own personnel as the size of the advertising contract and future business is substantially large. Monginis, the bakery business from the house of Khorakiwalas (who own Wockhardt, the pharmaceutical major, and Akbarallys, the department store chain) uses franchisees and other middlemen to distribute its products, whose order lots are from individual consumers and therefore small.

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.

7.5 LET US SUM UP

For service, due partly to its characteristics of intangibility, inseparability and variability, people mostly its internal customers-have becomes one of the most important strategic variables. They, therefore, are the main differentiators for the service firm. The ways in which internal customers especially employees can contribute to positive and unique differentiation of service organizations: communicability, transaction and consistency. The service personnel are expected to be efficient and highly productive to be considered as a contributing member. Simultaneously, he is expected to deliver the highest quality of customer service in the encounter, be courteous to customers and give them the best of service experience. There can be many conflicts that arise out of boundary spanning roles: role conflicts, organizational/client conflict and inter-client conflict. The boundary spanning roles of the service provider might make him take the onus of stepping in, and being activist, to sort out problems and issues. This might bring in more inter-personal conflicts, generate more issues and bones of contention, and quite simply end up in bigger and mishandled messes.

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The success of a service, its marketing and its satisfaction entirely depends upon its operations and processes, operators and providers. The best of features from the most popular service products will never alone be successful in retaining customers if the quality of service transactions id perceived to be poor. Enabling the internal market through training, quality of work life, incentives, work culture, motivation, recognition are some of the winning strategies. Internal marketing philosophy is based on the facts that internal customers are both producers and suppliers of service offers and that they have to work in groups or on a team. Rarely is any service is an organization delivered in isolation. Customers tend to lose patience, and service firm has to agonize in choosing isolation. Customers tend to lose patience, and the service firm has to agonize in choosing speed over security. But the world over, delayed service is perceived as inefficiency. Waiting time management is a challenge but can be creatively handled.

Service evolved from very simple steps to complex processes, and there arose a need for the marketer to get a 'bird's eye view 'of the whole processes. Blueprinting is flowcharting of a service operation. This methodology was devised by Lyn Shostack in 1984, to help out new service firms in mapping the sequences before the beginning of service delivery or any encounter. The objective of blueprinting is to show how information, assets and customers are processed. To put all of them in a blueprint is to imply that they are elements of uncertainty. Service failures follow Murphy's Law (Whatever can go wrong will go wrong) and cannot be avoided in spite of the best of planning, it can certainly by minimized by blueprinting. Designing a service delivery system has to take into account factors such as location, facility design layout for effective customer service, workflow, etc. Once a service becomes operational, modifications are necessary in order to optimize the services rendered as the circumstances of the case warrant. Blueprinting enable managers to find areas for improvement as well as fail points, i.e., the points all which any mistake would mean huge costs for correction and rectification.

Benchmarking is a competitive strategy to win marketer share and a survival strategy for threatened corporations and industries. As the banking industry becomes globalized and liberalized, clients anywhere in the world will soon expect the same excellent service from any bank or financial institution offering the same products. 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. The decision regarding service location depends upon the degree and type of contract and flexibility as consumption. It is not necessary that firms in similar services should have the same distribution systems. Nor is it necessary for service firms to choose only one distribution system. A service firm should choose as distribution channel in line with its strengths, which would satisfy its customers and bear the competition. Choosing a distribution channel involves decisions regarding role of distribution, the type of channel, the intensity of population and choice of specific intermediaries. There are two types of channels-direct and indirect. The primary factor that affects the choice of channel for a service firm is the nature of the marketer and the service consumers buying behaviour. The secondary factors that affect channel choice are the service product, the intermediaries and the service firm itself. A service firm has to adopt various control, empowerment and partnering strategies for effective delivery of services.

7.6 KEYWORDS

- ***Moment of truth:*** service encounters
- ***Role conflict:*** occurs when self perceptions regarding roles differ

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- ***Interprenuership:*** entrepreneurship within the firm.
- ***Internal marketing:*** enabling the employees, suppliers, producers etc. by training motivation etc.
- ***Blueprint:*** maps the service process
- ***Line of interaction:*** customer interaction line
- ***Line of visibility:*** for onstage contact employee actions
- ***Balance production line:*** process time and inventories of all steps being same
- ***Fail points:*** loopholes in the service process
- ***Direct distribution:*** directly selling the services
- ***Indirect distribution:*** selling services through channels
- ***Concept product:*** highly technical and conceptual difficult to evaluate.

7.7 QUESTIONS FOR DISCUSSION

1. What are the principal ways in which the management of personnel is likely to be different in banking organization as compared to any manufacturer?
2. "conflicts are in integral part of any service organization". Explain the statement with examples from banking and insurance industry.
3. "intermal marketing is as important as external marketing". Comment.
4. What do you understand by blueprinting? Explain the hub and spokes model.
5. Draft out a service blueprint of an insurance company. Explain the major points.
6. "It's high time that banks start benchmarking". Do you agree? Give reasons.
7. Explain the factors on which location of banking company would depend.
8. How can an insurance company effectively design its distribution channel?
9. What factors influence the choice of channels in banking and insurance sector?
10. "the problem of delivery invariably lies in the perception of the role of the intermediary: as a customer, partner or an extension of the service firm". Comment.

7.8 SUGGESTED READINGS

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- Christopher H Lovelock, Service Marketing, Third Edition, Us: prentice Hall International
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UNIT 8: SERVICE QUALITY AND BUILDING CUSTOMER RELATIONSHIPS

Structure

8.0 AIMS AND OBJECTIVES

After going through this unit, you will be able to:

- GAP model of measuring service delivery quality
- Concept of service quality
- Need for retaining customers
- Concept of CRM
- Role of customer privacy in CRM

8.1 INTRODUCTION

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;
- Tangibilizing the service offering;

- Dealing with different types and varieties of people-internal as well as external Customers- as also the delivery issues;
- Keeping promises made to customers.

But the most intriguing challenge is the measurement and monitoring of quality.

Some questions regarding quality of service still elude any definitive answers:

- How can service quality be defined and improved when the product is intangible and non-standardized?
- How can new services be designed and tested effectively when the service is essentially an intangible process?
- How can the service firm be certain that its communication has been effective, consistent and relevant, especially when its other marketing mixes are also communicating? This apprehension is especially true with respect to role played by the providers in the service transaction.

Customer's satisfaction holds the key for customer retention. A service marketer does a lot of activities to make a long term relation with the customers.

8.2 MEASUREMENT OF SERVICE DELIVERY

8.2.1 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 to measure the expectation of 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 narrow the gap, better the service quality of the firm; i.e., the firm is successful in meeting the customers' expectations…so far since consumer expectations keep inching upward constantly, so must the quality of service.

- The measurement of the expectation of the customers before the service delivery.
- The measurement of perception of the experience, after the services encounter.

The model professes two types of gaps

Customer Gap

The gap between customer expectations and customer perceptions. This, in other words is the service quality shot fall 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 from the bases of his reference-to-come for the service experience. The customer's 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

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customer's 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 at one go. Lesson: we are only as good as washing away years of happy experience at one go. Lesson: we are only as good as our last 'Moment of Truth', and what it signified to the customer.

Service quality is all about the responsiveness of an organization to meet the customer expectations. The service performance is measured by the perceived service quality. The quality if a service had two components:

1. **Technical quality:** This is the end result of the service operations process.
2. **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 organizations 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.

Provider Gap

There are four provider gaps and there in sum total are the causes 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-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 customer 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 organization;
- Insufficient focus on relationship building ('don't care' attitude), etc.

Gap-2: Management Perception-Service Quality Expectation Gap

This gap is created in the design process of the service product and laying down of specifications for service quality during service transactions. In the design process, this gap arises during the translation of management's 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 customers' expectations, there would be scope for misunderstanding this, leading to setting the wrong specifications, service designs and standards. For example, a bank would believe that customer friendly interaction is what the customers prefer but the standard would be set on computerization-which is impersonal and neutral. There is no human contact to support the concept of 'friendliness'.

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-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 is the bane of all public sector institutions, be they banks, insurance companies, hostel, travel agencies, hospitals or any such. The management's 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 firm. This becomes especially important for that firm that is heavily dependent on people in performing the last transaction. Public sector banks might have the best of design specifications set by Reserve Bank of India; yet late –coming staff, corrupt employees (the Harshad Mehta scam of misuse of portfolio Management Funds and the internal document mess-up in State Bank of India) would bring large in quality to put it mildly!

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 evening 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- 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 and 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 customers,
- Expectations through communications;

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- Over-promising in advertising and personal selling;
- Inadequate horizontal communication between sales and operations;
- Differences in policies and procedures across branches, etc.

8.2.2 Service Quality and Service Marketing

In service, marketing and operations overlap to a great extent. Thus quality of service would imply management of quality of all service marketing mixes.

Taking a leaf from manufacturing and goods, issue of quality in services is an issue of survival and competitive advantage. Just as shoddy goods have no sales, acceptance or viability, poor service quality will find survival difficult in a highly competitive market-place. To briefly illustrate the reasons for the importance of quality in services:

Lower costs: Higher quality of services imply fewer mistakes for any repeat tasks, service recovery exercises or refunds to disgruntled customers .preventive and corrective measures through quality control processes lowers cots and increases productivity.

Immune or less vulnerable to price war: Service firms known for their high quality services have an additional differentiating attribute and can avoid the service commodity trap. They can afford to have a higher price as they offer more benefits than the competition.

Higher customer loyalty: Service quality ensures customer satisfaction that drives customer loyalty and enhanced profits.

Higher market share: Loyal customers contribute to positive word-of –mouth publicity (the 'buzz effect,), which broadens customer base with minimal costs.

Loyal internal customers: There is a linear relationship between happy employees and customer loyalty, and a firm's profitability. Employees become proud of the firm for which they are working; having a sense of belonging is known for inspiring and delivering high quality services. Lower attrition level lowers manpower and training costs and the service firm can leverage on the knowledge and skill of its employees.

High RoI: The service-profit chain has established that high quality services contribute to higher profitability.

We have now established the base for quality in service as well as for discussing models to measure quality.

Defining quality in service: In manufacturing, quality is defined by the degree of compliance between stated goals and achieved targets. It is there for rather easy to measure and conform to 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- the intangibility factor-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 other's definitions of service quality.

Quality can be vied from multiple perspectives

1. **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. Citibank's subsidiary Citi Financial offered loan in just 1.3 minutes after application.

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2. **User-based:** this definition is from the customer's perspective, reinforcing the notion that" quality is in the eyes of the beholder". An extremely well-read professor following all the guidelines of teaching can be condemned with "poor" rating if the students are not able to comprehend the accent, or if the delivery is uninteresting. This element of subjectivity raises a challenge: that of finding out:
   (a) What the customer expects,
   (b) Which attributes to be included for garnering the largest appeal from the largest group of customers, and
   (c) How to differentiate between those attributes that provide satisfaction and those that imply quality.
3. **Dimensions of service quality:** we will discuss two works, both of which will those that imply quality. (SEVQUAL)
   (a) David A. Garvin: eight dimensions of quality view identified by Garvin:
   (i) **Performance:** Every product is supposed to deliver benefits and the measure of its quality is performance of the offer. A dish scourer, which can clean plates completely and quickly, would be a performance measure.
   (ii) **Features:** These are in addition to the core product, which so not come as standard 'features, but as add-ons.
   (iii) **Reliability:** this is a measure of the degree of probability of the product delivering what had been promised.
   (iv) **Conformance:** Delivery quality meeting design standards.
   (v) **Durability:** This is a measure of the length of time that a product van deliver benefits, without deterioration.
   (vi) **Serviceability:** If the product can be repaired with ease and speed then it is a measure of quality. It could include the behavioral dimension of service personnel, e.g., their politeness.
   (viii) **Aesthetics:** This is a measure of the products looks, design, touch and feel.
   (vii) **Perceived quality:** Consumers develop a perception due to company-controlled stimuli like advertising, publicity and brand promotion, and social effects like word-of mouth.
   (b) A Parasuraman et al: Parasuraman, Valerie Zeithamal and Leonard berry identified dive dimensions with which consumer judge services.
   (i) **Reliability:** the service should be performed with dependability, and as per its promise.
   (ii) **Responsiveness:** This concerns the attitude of the service providers to service providers. It also indicates their ability to generate trust and faith, and also capability in service delivery with politeness and consideration.
   (iii) **Assurance:** this relates to the knowledge, skill and competence of the service providers. It also indicates their sensitivity as well as timeliness in responding to customer requests.
   (iv) **Empathy:** this dimension relates to the caring, feelings as well as the ability to give personalized service.
   (v) **Tangibles:** this is a measure of the effectiveness of the physical evidence of the service provider like design layout and facilities.

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8.3 CUSTOMER RELATIONSHIP

8.3.1 Service profit Chain Model

The 'service –profit Chain' Model is based on the following seven theorems:

1. Profit and growth are linked to customer loyalty.
2. Customers loyalty is linked to customer satisfaction.
3. Customers satisfaction linked to service value.
4. Service value is linked to employee productivity.
5. Employee productivity is linked to employee loyalty.
6. Employee loyalty is linked to employee satisfaction.
7. Employee satisfaction is linked to internal quality of work life (internalizing the firm's brand)

The service-profit chain model has certain limitations that need to be considered before adopting it wholeheartedly. The limitations of this model are:

Relationship between satisfaction and loyalty is not always linear.

The relationship depends on the type of industry. Where the choices for the customer are very high, the relationship is very strong and customer migration is possible; in monopolistic competition (utilities, public transportation, government public service, etc.), the relationship is weak.

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. Satisfied customers who metamorphose into 'advocates' or 'apostles' perform the role of unpaid salesmen, promoting the service of their own free will.
6. Repeat customers are less expensive to serve than first time customers, as they are well aware of the offer and not require customer support, education, guidance and training.

The service firm tends to lose all the future stream of revenues from its banks of loyal customers (who are a profitable segment) if such hitherto loyal customers switch to a competitor. There has been research in the field, which has identified strong relationships between loyalty (retention) and increase in customer net present value. An increase of 5 percent in retention rate by a service firm increases the net lifetime profits from the customer.

8.3.2 Cycle of Capability

Measuring and maintaining service quality goes on to reduce variability and increase consistency of service delivery and the total capability of the firm. This has an appreciable and positive impact on employee satisfaction, which greatly lowers attrition levels. The higher loyalty factor reduces training costs increasing productivity and the quality of output. The last contribute towards raising the benchmark of performance, the maintenance and up gradation each of which will reflect on its competitive advantages, positioning brand value and profitability.

8.3.3 Customers Relationship Management

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Traditional marketing strategies focused on the four ps (price, product, promotion and place) to increase market share. The main concern was to increase the volume of transaction between seller and buyer. Volume of transactions is considered a good measure of the performance of marketing strategies and tactics.

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 issues rather than a technical issue. CRM consists of three discrete components:

- Customer
- Relationship, and
- Management.

CRM tries to achieve a 'single integrated view of customers, and a 'customer-centric approach, by judiciously blending these three factors.

Components of CRM

1. **Customer:** The customer is the only source of the company's 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 mange customers. CRM can be thought of as a marketing approach that is based on customer information.
2. **Relationship:** The relationship between a company and its customers involves continuous bi-directional communication and interaction. The relationship can be short-term or long, 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. For example, the buying pattern for insurance policies depends on whether a person buys the policy for his family or individual. CRM involves managing this relationship so that it is profitable and mutually beneficial. Customers lifetime value (CLV) is a tool for measuring this relationship.
3. **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.

8.3.4 CRM Business Cycle

The CRM business cycle for any organization starts with the acquisition of customers.

Acquisition and Retaining

Acquisition is a vital stage in building customer relationship. For the purpose of customer acquisition, an organization is likely to focus its attention on prospects, enquiries, lapsed customers, former customers, competitors, customers, competitor's customers, referrals and the existing buyers.

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From these, the organizations need to acquire customers and prospective customers and retain valuable customers.

Understand and Differentiate

Organizations cannot have a relationship with customers unless they understand them, find out what they value, what types of services are important to them, how and when they like to interact and what they want to buy. True understanding is based on a combination of detailed analysis and interaction.

Several activities are important

- Profiling to understand demographics, purchase patterns and channel preference.
- Segmentation to identify logical unique groups of customers that tend to look alike and behave in a similar fashion. While the promise of one-one marketing sounds good, not many organizations have mastered the art of treating each customer uniquely. Identification of actionable segments is a practical place to start.
- Primary research to capture needs and attitudes.
- Customer's valuation to understand profitability, as well as lifetime value or long-term potential. Value may also be based on the customer's ability or inclination to refer other profitable customers.

Customers need to see that the company is differentiating between service and communications based on what they have learned independently and on what the customers have told them.

Develop and Customize

In the product-focused world of yesterday, companies developed products and service and expected customers to buy them. In a customer-focused world, product and channel development have to follow the customer lead. Organizations are increasingly developing products and service, and even new channels based on customer needs and service expectations.

Interact and Deliver

Interaction is also a critical component of a successful CRM initiative. It is important to remember that interaction does not just occur through marketing and sales channels and organization, including distribution and shipping, customer service and online. With access to information and appropriate training, organizations will be prepared to steadily increase the value they deliver to customers.

8.3.5 Reasons for Adopting CRN: The Business Drivers

Competition for customers is intense. From a purely economic point of view, firms learned that it is less costly to retain a customer than to find a new one. The oft-quoted statistics go something like this:

- Going by Pareto's principle, it is assumed that 20% of a company's customers generate 80% of its profits.
- In industrial sales, it takes an average of 80 to 10 physical calls in person to sell to a new customer and only 2 to 3 calls to sell to an existing customer.
- It is 5 to 10 times more expensive to acquire a new customer than to obtain repeat business from an existing customer. For example, according to the Boston Consulting Group, the costs to market to an existing Web customer are \$ 6.80 compared to \$ 34 to acquire a new Web customer.

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- A typical dissatisfied customer tells 8 to 10 people about his or her experience.
- A 5% increase in retaining existing customers translates into 25% or more increase in profitability.

In the past, the prime approach to attracting new customers has through media and mail advertising about what the firm has to offer. This advertising approach is scattershot, reaching many people including current customers and people who would never become customers. For example, the typical response rate form a general mailing is about 2%. Thus, for example, mailing a million copies of an advertisement, on an average yields only 20,000 responses.

Another drier is the change introduced by electronic commerce. Rather the customer dealing with a salesperson either in a brick and mortar location or on the phone in electronic commerce the customer remains in front of their computer at home or in the office. Thus, firms do not have the luxury of someone with sales to convince the customers. Whereas normally it takes effort for the customer to move to a competitors physical locations or call a competitors number, in electronic commerce, firms face an environment in which competitors only a few clicks away.

8.3.6 Customer Privacy

Customer privacy is an important issue in CRM. CRM deals with large amounts of customer data through various touch points and communication channels. The personalization process in CRM requires identification of each individual customer and collections of demographic and behavioral date. Yet, it is the very information that most customers consider personal and private.

The individual firm is thus caught in an ethical dilemma. It wants to collect as much information as possible about each customer to further its sales, yet in doing so it treads into and beyond the bounds of personal privacy.

Privacy issues are not simple. There are overwhelming customer concerns, legal regulations and public policies around the world. It still is unclear and undetermined to what extent customer privacy should be protected and should not be used, but four basic rules might be considered.

1. The customers should be notified that their personal information is collected and will be used for specific purpose.
2. The customer should be able to decline to be tracked.
3. The customer should be allowed to access their information and correct it.
4. Customer data should be protected from unauthorized usage.

Some companies provide 'customer consent forms' to ask the customer to agree to information collection and usage. Providing personalized service to customers is a way to satisfy customers who provided their personal information. All these efforts are designed to build trust between the company and its customers.

8.3.7 Technical Immaturity of CRM Vendors

The concept, technologies, and understanding of CRM are still in their early adopter stage. Most of the CRM technologies are immature and the typical implementation costs and time are long enough t frustrate potential users. Many software and hardware vendors sell themselves as complete CRM solution providers but there are little standardized technologies and protocols

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for CRM implementation in the market. Even the scope and extent of ‘what CRM includes, differ from vendor to vendor; each has different implementation requirements to achieve the customers’ expectations.

CRM is one of the busiest industries in which frequent mergers and acquisitions occur. Many small companies merge in order to sustain and to compete with large vendors large companies acquire small vendors enter their markets. Due to these frequent mergers and acquisitions, stable technical support front e-market becomes rare. Vendors publish new versions of CRM software as frequently as they can and load the cost on customers who, they feel, should pay for it.

Often these technical immaturities or unstable conditions are combined with the customer requirements, which are frequently unclear and leas to project failure. These technical immaturities may be overcome over time, but the process may be long and painful.

8.3.8 Basic Assumptions of CRM

1. **Habitual action:** A basic idea of CRM is that the future behaviour of customers is determined by or similar to their previous behviour. In other words, the people will behave as they did yesterday and a month ago. This assumption is partially right and partially wrong. As time goes by, behaviour. By predicting future behaviour, a company can better serve its customers changing demands and preferences.
2. **Current customer information is always correct:** it is important to maintain the quality of customers, demographic and behavioral information .the right decision requires correct date and information. Can we believe or trust the customer data in the database or in the data warehouse.

   The customer database comes from a variety of sources and is obtained by different input methods. Considerable attention (and expense) is required for cleansing the data periodically to make it useful for CRM. The firm must update as customer information changes. For example, people move; income levels change; marriages, births and deaths occur. Sometimes, the correct decision is serendipitously made accidentally from incorrect data. However, that is a rare event.
3. **Consumers want individual, differentiated treatment, services and products:** The basic assumption of CRM is that the customer always wants individualized products and services. However, this assumption cannot always be satisfied because a company cannot always deliver all of the required products and services. Furthermore, instead of individualization, customer- buying decisions for products and service often follow fashion or rends. Technology developments are also important in the decision process. Therefore, some argue the importance of providing the right products and services at the right time or moment rather than just providing individualized products and services.

   Myth 1: excellent CRM System Guarantee Marketing Success.

   CRM is not a strategy but a tool to help and modify the marketing strategies of a company. Before it achieves a viable CRM system, a company needs the right value propositions and strategies to implement the customer-centric philosophy of the CRM .CRM requires more commitment and loyalty by the company to the customer rather than by the customer to the company. Without competitive products and services, a company cannot obtain the benefits of CRM.

   Myth 2: to use CRM, a Company must be Organized by Customer Segments rather than Products.

Organizational restructuring is an expensive, time-consuming and painful process for a company and the people in the company. Without appropriate co-ordination with other function in a company, restructuring is not as effective as expected. For example, channel strategies should be combined with CRM capabilities so that a customer does not receive different offers from a company through different channels.

Myth 3: Successful CRM requires a Large Centralized Database with Complete Customer Data.

Many successful financial companies maintain database at the products level. By having a smaller database, a company can simplify the system design and maintenance and the customer ownership. Common standards of hardware and software are more important than large databases.

Myth 4: CRM requires the most Advanced and Sophisticated Analytical Techniques.

Clean and relevant data is more important and effective then sophisticated analytical tools. Yet we frequently find incomplete, inaccurate and outdated customer information being used. If there is garbage in, the output is also garbage. Future-oriented and hypothesis- based analyses and anticipation are more effective than complex analyses.

Myth 5: CEM is a Turnkey Project

Database, infrastructure and supporting business processes are required to start CRM programs. However, it is not necessary to set up everything together. Rather, CRM is a ‘test, run, test’ process. An incremental approach is cheaper and more effective than a turnkey – based approach. Lessons from mistake are important to educate employees about how to use CRM.

CRM is not a perfect single solution to business problems. CRM is part of a complex set of business strategies and processes to serve the customer.

8.3.9 Lifetime Value of a Customer

A fundamental concept of Customer-Relationship Management is the lifetime value of a new customer. The basic idea is that customer’s should be judge on their profitability to the firm over the total time they make purchases. Profitability is usually based on net value, that is, the mark–ups over cost less the cost of acquiring and keeping the customer with or without the particular customer.

8.4 LET US SUM UP

There are a lot of challenges that service marketers face due to the basic difference that prevails between service and goods. Some of them include understanding customer needs, Tangibilizing the service and keeping promised. 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 gap model assumes existence of a customer gap and four provider gaps. On services, marketing and operations overlap to a great extent. This quality of service would imply management of quality of all service marketing mixes. In manufacturing quality is defined by the degree of compliance between stated goals and achieve 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

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characteristics for services-the intangibility factor – and it makes measurement and assessment of service quality extremely challenging.

The service firm tends to lose all the future stream of revenues from its banks of loyal customers (who are a profitable segment) if such hitherto loyal customers switch to a competitor. There has been research in the field, which has identified strong relationships between loyalty (retention) and increase in customer net present value. Measuring and maintaining service quality goes on to reduce variability and increase consistency of service delivery and the total capability of the firm. This has an appreciable and positive impact on employee satisfaction, which greatly lowers attrition levels. 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 – widest set of tools, technologies, and procedures promote the relationship with the customer to increase sales. Customer, relationship and management are three components of CRM. CRM business cycle includes the following steps: acquisition and retaining understand and differentiate, develop and customize and interact and deliver.

Competition for customers is intense. From a purely economic point of view, forms learned that it is less costly to retain a customer than to find a new one. Customer privacy is an important issue in CRM. CRM deals with large amounts of customer data through various touch points and communication channels. CRM is one of the busiest industries in which frequent mergers and acquisitions occur. Many small companies merge in order to sustain and to compete with large vendors. Large companies acquire small vendors to enter their markets. The basic idea is that customers should be judged on their profitability to the firm over the total time they make purchases. Profitability is usually based on net value, that is, the mark-ups over cost less the cost of acquiring and keeping the customer.

8.5 KEYWORDS

- ***Customer gap:*** gap between customer perception and expectations
- ***Provider gaps:*** gaps from service provider side, mainly causes customer gap
- ***Conformance:*** delivering quality service to meet standards
- ***Aesthetic:*** measure of products looks, design, touch and feel
- ***Empathy:*** showing concern for the customers
- ***CRM:*** strategically handling customer relations
- ***Habitual action:*** assumption of repetitive behaviour

8.6 QUESTIONS FOR DISCUSSION

1. Discuss why service quality has become increasingly important issue in marketing.
2. In what way does retail bank attempts to measure its quality of services? Compare the process with insurance company.
3. Give examples of the methods by which public sector banks can seek to measure quality.
4. Critically assess the usefulness of SERVQUAL technique for measuring quality in insurance industry.
5. What are the major drivers for the banking industry to go in for a CRM system?
6. Discuss the role the customer privacy and technical soundness in CRM.
7. Explain the basic assumptions of CRM and the associated myths.

8.7 SUGGESTED READINGS

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CASE STUDIES

Case 1: State Bank of India

History and Origin

The origin of the State Bank of India goes back to the first decade if the nineteenth century with the establishment of the Bank of Calcutta in Calcutta on 2nd June 1806.three years later the bank received its charter and was re-designated as the Bank of Bengal(2nd January 1809). A unique institution, it was the first joint-stock bank of British India sponsored by the Government of Bengal. The Bank of Bombay (145th April 1840) and the Bank of Madras (1st July 1843) Followed the Bank if Bengal. These three banks remained at the apex of modern baking in India till their amalgamation as the Imperial Bank of India on 27th January 1921.

But this creation was preceded by years of deliberations on the need for a 'State Bank of India'. What eventually emerged was a 'half –way house' combining the functions of a commercial bank and a quasi- central bank.

The establishment of the Reserve Bank of India as the central bank of the country in 1935 ended the quasi-central banking role of the imperial Bank. The latter ceased to be bankers to the Government of India and instead become agent of the Reserve Bank for the transaction of government business at centres at which the central bank was not established. But is continued to maintain currency chests and small coin depots and operate the remittance facilities scheme for other banks and the public on terms stipulated by the Reserve Bank. It also acted as bankers, bank by holding their surplus cash and granting them advances against authorized securities. The management of the bank clearing houses also continued with it at many places where the Reserve Bank did not have offices. The bank was also the biggest tendered at the Treasury bill auctions conducted by the Reserve Bank on behalf of the Government.

The establishment of the Reserve Bank simultaneously saw important amendments being made to the constitution of the Imperial Bank converting it into purely commercial bank. The earlier restrictions on its business were removed and the bank was permitted to undertake foreign exchange business and executor and trustee business for the first time.

The imperial Bank during the three and a half decades of its existence recorded an impressive growth in terms of offices, reserves, deposits, investments and advances, the increases in some case amounting to more than six-fold. The financial statues and security inherited from its forerunners no doubt provided a firm and durable platform. But the lofty traditions of banking which the imperial Bank consistently maintained and the high standard of integrity it observed in its operations inspired confidence in its depositors that no other bank in India

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could perhaps then equal. All these enabled the Imperial Bank to acquire a pre-eminent position in the Indian banking industry and also secure a vital place in the country's economic life.

When India attained freedom, the Imperial Bank has a capital base (including reserves) of ₹ 11.85 crores, deposits and advances of ₹ 275.14 crores and ₹ 72.94 crores respectively and a network of 172 branches and more than 200 sub offices extending all over the country.

In 1951, when the first five year plan was launched, the development of rural India was given the highest priority. The commercial banks of the country including the imperial Bank of India had till then confined their operations to the urban sector and were not equipped to respond to the emergent needs of economic regeneration of the rural areas. In order, therefore, to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state- partnered and state –sponsored bank by taking over the imperial Bank of India , and integrating with it, the former state-owned or state –associate banks. An act was accordingly passed in parliament in May 1955 and the State Bank of India was constituted on 1st July 1955.more than a quarter of the resources of the Indian banking system thus passed under the direct control of the state. Later, the state bank of India to take over eight former state- associated bank as its subsidiaries (later named Associates).

The state bank of India was thus born with a new sense of social purpose aided by the 480 offices comprising branches, sub offices and three Local Head Offices inherited from the imperial Bank. The concept of banking as comprised of banks who were mere repositories of the community's savings and lenders to credit worthy parties, was soon to give way to the concept of purposeful baking subserving the growing and diversified financial needs of planned economic development .the state Bank of India was destined to act as the pacesetter in this respect and lead the Indian baking system into the exciting field of national development.

Its first concerted and cohesive competitors were the 19 nationalised banks. They were nationalised in 1969, as an attempt by Mrs Indira Gandhi to give herself a socialistic image. She continued the policy of nationalised banks now has agenda similar to those of the Government.

But with liberalization in 1991, pressures on the banking systems to perform, be efficient and have lower NAPs (Non-performing assets) were increasing. There were more stringent norms for compliance, especially after the stock- market scam of1992.

A new threat came after 1995 when a slew of private sector banks were given license to practise banking. ICCI Bank, Times Bank, HDFC Bank, UTI Bank, IDBI Bank, IndusInd Bank etc. there was swift growth and the inevitable consolidation in terms of mergers and acquisition. The new private sector banks resorted to ATMs, net banking, and other technological processes and marketed themselves on "convenience banking". These players took away a lot of the business from the old players, especially SBI. Ironically, the new banks also started "stealing" the officers from public sector banks. A major victim was SBI. Its famed probationary officers, comparable to the IAS in competence and background, were perfect poaching material.SBI stared to lose its external as well as internal customers!

QUESTIONS

1. How would SBI cope with the challenges of new private banks?
2. Would a new consultancy advice from Mckinsey, wherein they suggest changes in organization structure, be fit to face the new competitive environment?
3. How should SBI concentrate in its internal customers?

Case 2: ICICI Bank Ltd.

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ICICI Bank is one of the leading private sector banks in the country has established its position further through the acquisition of Banks of Madura in March, 2001. The Bank now has presence in 17 states in India, with a branch network of 395 and over 3.7 mn customer accounts. ICICI Bank has the largest ATM network in the country (546 as on June 30, 2001). The promoter ICICI divested part of its stake (8.8%) in the bank FY01 to comply with RBI, bank licensing conditions. ICICI Bank has ceased to be a subsidiary of ICICI, as the two institutions have merged.

The Indian financial system comprises of financial institutions, which were set up with the objective of providing ling term finance, commercial banks fulfilling working capital and general banking needs, specialized investment institutions life LIC, GIC, UTI and technology have increased the degree of competition in the Indian financial sector to unprecedented levels

The banking sector has witnessed a sea change during the last few years. The domination of public sector banks has declined over the years with the entry and aggressive expansion of the private banks. Banks no longer provide on the financing function, but compete with each other in as many segments. Margins in the traditional fund base business have come under pressure due to a sharp fall in interest rates, with disproportionate reduction in cost of deposits. Banks at increasingly focusing on generation of fee based incomes and have been expanding the range of retail product offerings.

ICICI Bank has transformed itself at a fast pace, making constant efforts to take the first mover advantage in the technology-related businesses. The bank has been at the forefront in the rapid expansion of its ATM network, setting up of call centers, credit card business and consolidating technology infrastructure including data centers. Telephone banking has been made available to the customer base, and internet banking has been made available to the customer base, and internet banking has seen a phenomenal rise to more than 0.5 mn customers, up from a mere 0.1mn in FY 00. The equity of the ICCI brand and the diversification of business portfolio has enabled the bank to emerge as the leasing player in Retail as well as Corporate Banking products.

ICICI Bank has strengthened its position in the Banking industry through the Bank of Madura acquisition. The acquisition gives the merged entity advantages of:

- Larger balance sheet size.
- Extensive geographic reach through branch network;
- Increased customer base with cross- selling opportunities; and
- Foothold in the small and medium enterprise (SME) segment of market.

Background

ICICI was promoted by the Government, the World Bank and a steering committee of 5 prominent businessmen in 1955 to cater to private sector needs of long term financing. Due to the increasing competition in the financial markets and found based business getting affected by lower margins and higher level of NPAs, ICICI has been attempting to get a major share in the retail segment where the margins are better. This has been made possible through the various subsidiaries, which the company floated.

ICICI Bank was established on 5th January 1994, as a 75% subsidiary of ICCI, its stake reduced to 55% post IPO in 1997. The bank emerged as the second largest private sector Bank with aggressive expansion of network and reach. ICCI increased its share in the Indian banking sector by acquiring the 57 year old Madure Bank limited in an all stock deal in FY01, the ideal

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become effective from March 10,2001. Two equity shares of Bank of Madura were swapped for each share of ICCI. ICCI has divested about 8% share in FY01 and currently holds about 47% share in the Bank.

Shareholding pattern in ICCI Bank Ltd (post bank of Madura merger)

	% share
ICICI	46.99
FIIs	17.26
ADS	14.41
BOM Shareholders	10.68
Resident Indians	6.14
Others	4.52

Business

Post merger with Bank of Madura, ICICI Bank has emerged as the second largest private sector Bank in the country with an asset base of Rs. 197bn. The branch and customer base of the bank as at June end was as follows:

	As on June, 2001
Branch and EC	395
ATM Network	546
Total No. of Accounts	3,700,000
Saving Bank Accounts	1.800.000
Power pay accounts	855,00
Infinity Accounts	640.00
No. of Demat Accounts	300,000
NRI Accounts	92,500
ATM cards	1,476,000
Credit Cards	295,000
Debit cards	61.00

ICICI Banks retail deposits increased by 227% to ₹ 100bn in FY01. The significant benefit of the BOM merger has been the change in the retail: wholesale deposit ratio. Retail Deposits in FY01 were 61% of total deposits, while wholesale deposits contributed 39%. In FY00 the figures were exactly reverse at 31% retail and 69% wholesale.

The expansion of the retail deposits base has benefited in terms of reduction in the average cost of deposit from 8.72% to 7.77% Retail customer base of the bank jumped to 3.2 mn in March 2001and had further risen to 3.7 mn by June aided by the strong focus on expansion of Retail business. The merger has also provided geographical expansion into semi-urban and rural areas.

Retail Business

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Total deposits mobilized by the bank now stand at ₹ 163.78 bn. ICICI Banks share of deposits in the banking system has risen to 1.44%, up from 0.98% in FY00. The merger has enabled ICICI to tap the SME (small and medium enterprise) and micro business segment of the market where it hitherto had a minimal presence.

The retail asset base of the company has also grown, with a wide range product offering such as auto loans, home loans, loans for consumer durables, and investment products. Innovative and value added service such as Kid-e-Bank, Internet Banking, phone Banking have helped to gain customers as well as reduced cost of operations.

Corporate Business

Leveraging on the ICICI brand equity and group marking efforts, ICCI Banks has been able to grow its corporate asset base through cross selling of financial products. The bank has also concentrated in enhancing the quality of its asset portfolio. 94% of the incremental approvals were granted to corporate with rating of A and above. Corporate Banking is offered through 11 Branches.

As on march 31st, the Banks advances stood at ₹ 70.3 bn. Investments to credit substitutes stood at ₹ 37.4 bn. The credit deposit ratio has improved to 42.9% in FY01 against 37.06% in FY00.

KEY PARAMETERS

ROAA	1.34%
ROANW	12.98
EPS (₹)	8.13
Market share in deposits‘	1.44%
Market share in customer assts	1.92%
Net NPL as% Customer Assets	1.44%
Cost to income Ratio	53.53%
Capital Adequacy	11.53%

Capital Adequacy

Capital adequacy as on March 31 was 10.42% on Tier I capital of Rs. 13.02 BH and 1.15% on Tie II capital of ₹ 1.45 bn. Overall capital adequacy ratio stood at 11.57% of risk weighted assets as against the regulatory requirement of 9%.

Question

Compare the strategies of SBI and ICICI Bank.

Case 3: Opening case

One of the new private banks tried to analyze its customer base, their banking habits and their aspirations. The market research brief was broad enough to include an investigation into

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customer psychographics preference as well as feelings for the bank. The study was restricted to its customers. The research stumbles on to a startling find for the bank on its loyalty factor. This case concentrates on one aspect of the study: why do customers leave a bank? Looking from another perspective, the research problem could very well be: why does a bank lose its customers? The implication is that the customers let the bank and migrated too some other service provider.

The first job was to define a customer for the purpose of the study which was confined to existing customers of the banks services as well as customers categorized as ‘prospects’. Many service products were included in the study, but we will deal only with the saving accounts. The acquired customers were either walk-in or through personal selling by direct sales agents or bank personnel. A lost customer was defined as one who had stopped making any transaction for over a year, one who has closed his account, or a prospect who had closed his account, or a prospect who did not finally agree to open an account.

An analysis on the customers it lost. And the underlying reasons thereof, makes interesting reading:

Reasons for losing its customers	**Lost customers (%)**
Customers did not understand the message	5
Customer felt the bank personnel were rude	12
Customer was dissatisfied with the bank And its products	18
There were no follow up from the bank In pursuing the customer	65

Many customers (for various reasons) had changed their residences and finding no other branch, or ATMS in the vicinity and due to inconvenience in going all the way to their earlier bankers, had opted to discontinue with the bank.

Question

What indications do the above findings give to the service provider? What is the importance of the people factor in services?

Case 4: State Bank of India: Segmenting the Market for Competitive Advantage

1972, State Bank top brass were in deep trouble – of different kind. There were no external threats like take over’s (remember, it was the socialistic 70s and the only threat actually comes from the government in the form of nationalization, and it was already the owner), nor from any major regulations or from any competitive product or system innovations.

The top brass realized that the country’s premier bank was suffering from itself! It was not effective and beginning to go out of control. They went to the country’s premier business school, Indian institute of management, Ahmadabad (IIM-A) to pin-point the disease as well as get workable solutions. Those were the days when it wasn’t fashionable for corporate India to go to the Big Three accounting and consulting firms! SBI got value for its money. IIM-A diagnosed the problem as one of uncontrolled growth, without any focus, being driven by government agenda, and especially has no idea about its myriad customers and markets.

The bank had come to occupy a significant position in the country’s fortunes, affecting and touching the lives of millions of people. Stared as a clutch of presidency Banks. They were merged to form the imperial Bank of India and then adorned the garb of its present avatar in 1955 as the government s bank. It (and its seven subsidiaries-later renamed as Associates) was the sole public sector Undertaking (PSU) bank, till in 1969 nineteen banks were nationalized. It suddenly lost its UPS (ironic that at one time being associated with the government was a USP!)- there were now twenty government owned banks, with the same trusts and guarantees that goes with government ownership , as also bad service. They all grew frenetically and they all offered the same offers at the same rates.

But SBI suffered more because of its size. The consultancy report indicated that the bank had grown so fast and was now so unwieldy that it resembles an octopus that has no idea what its tentacles were doing. But the solutions offered by the two consultants were different, reflecting the difference in geopolitical realism. Ironically, three decades later, the two giants in their own fields were again facing problem s – of another king. IIM-A's solutions were: focus on the customer, more profile. Previously SBI had regional offices all over the country, which were monitored by the head office at Mumbai, then Bombay. Now it was told to segment the market and restructure accordingly.

Restructuring

SBI did a massive restructuring exercise which ran the length and breadth of the bank. Its restructuring was the synchronization the segmentation principle with multiple bases, which would give it, more focus, accountability and help recharge the financial behemoth.

Geographic: It divided itself into "Circles" each monitored by a local head office (LHO) the "circles" were segmented into politically contiguous areas based in states. Thus Bhopal circle had its LHO based at Bhopal and covered the whole of erstwhile Madhya Pradesh and now includes both MP and the newly hived off Chhattisgarh; Bhubaneswar Circle consisted of SBI Branches in the state of Orissa while Hyderabad Circle had the state of Andhra Pradesh as its domain etc. Smeller states were clubbed with larger stares to be monitored from the same LHO. Thus Goa came under Mumbai LHO while Kolkata LHO monitored Sikkim and Andaman and Nicobar Islands and Delhi LHO controlled Delhi (Which itself had over 240 branches!), Haryana, the whole of Rajasthan and parts of western Uttar Pradesh(UP), etc.

Further geographic segmentation: Each 'circle' was further subdivided into 'four' modules' and each 'module' controlled four 'Regions'. Thus Bhopal Circle was divided into four' modules' which were named after the town in which the Module offices were named after the town in which the module offices were situated: Bhopal, Jabalpur, Raipur and Gwalior Modules. Each of the modules has four 'Regions'- numbered I to IV. Thus Jabalpur Module in Madhya Pradesh would have Region I consisting of branches in Jabalpur District and town; Region II would consist the northern districts of Rewa while Region IV would be the eastern coal belts of Shadol, Sarguja, etc.

Administration, Empowerment and Internal Customers: Every LHO was headed by a Chief General Manager (CGM) who controlled a bank territory equivalent to any of the nationalized banks. Thus while Canara Bank had about 600 branches all over India Bhopal Circle itself had about 550 branches! The CGM was the thus empowered like any other public sector bank Chairman and CEO. The CGM was assisted at the LHO level by two General Managers- GM operations and GM Planning. The CGM has almost all the powers of the Chairman and Managing Directors of a nationalized bank and usually headed for an MD's post next. Every

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Module was headed by a Deputy General Manager (DGM) who was assisted by a team off our Regional Managers (RM) each heading a region. There were some branches which were so big that it required very senior personnel who were equivalent in rank to the RMs; they came under the direct control of the DGM. Thus Jabalpur Main Branch was headed by a Chief Manager, Who was in the rank of a RM and came under the control of the DGM, Jabalpur Module. With this structure there was greater empowerment, more focus and the issues were sorted and solved at the LHP level.

External customers and the branch: Every branch was divided according to the type of business that they handled. In other words, division at the branch level was by the types of customers that they dealt with. Thus a typical SBI branch was divided into the following divisions:

Personal Banking Division (PBD) which dealt with individual customers and their personal banking needs like deposits. Cash withdrawals, fixed deposits, remittances, loans against deposits etc.

Small industries and business division (SIB) which dealt with the needs of the small business life cash credits, overdrafts, loans, etc. in the eighties, any enterprise whose turnover was less than 20 crore rupees was termed small business.

Commercial and institutional banking Division (C and I). This dealt with the banking needs of large institutions (like IIM-A) and corporations (like Indian Oil Corporation). Their banking needs would include term loans, working capital, non-fund based business like Letters of credit and Bank Guarantees, etc. Initially, foreign Exchange cell functioned under C and I Division, handing all forex business. It was merged with a new nomenclature: institutional Banking Division (IBD) and Commercial Division. There were exclusive Service and Commercial Branches to cater to the cheque collection and clearing businesses.

Agricultural Banking Division (ABD) handled all banking needs of the farmer like crop and farm equipment loans, savings and fixed deposits etc. there were exclusive Agricultural Development Branches (ADBs) to only well developed areas.

Accounts Division handled all the administrative function of the branches including Cash Section.

The segmentation of the market on different bases and the resultant reorganization of the banking behemoth towards addressing the chosen segments did make it effective. Up and down the chain in SBI, the staff had clearer idea of the business and the wherewithal to deal with management issues.

At the branch level the staff could address their customers who trooped into their divisions appropriately. Even with limited staff, with no computerization to speak of, they were able deal with the customers' needs.

At the Regional Office level, the managers had better idea of different businesses and the performance at different branches. They could new know with certainty, for example, that at SBI Nagda, Ujjain, MP there was more non-fund business in the form of letters of credit and bank Guarantees coming from the viscose staple Fibre business of Grasim, the flagship of Aditya Vikram Birla Group in Nagda then savings and other deposit accounts. Appropriate personnel skilled in the respective business could be placed for greater effectiveness.

At the Local Head office level the circle could function with sufficient autonomy and be as agile and effective as any public sector bank. Thus Bhopal Circle could, after analyzing its truly cosmopolitan staff (it was a joke amongst the staff that Mp was better known as Metropolitan Pradesh reflecting its diversified linguistic background), take important steps in developing innovative Human Resource initiatives like Quality Circles, Key performance Appraisals, Behavioural Science training and other Organization Development programmes.

At the HQ, in Mumbai, the Chairman with two Managing Directors reporting to him has a better idea of the monoliths functioning. A lot of path breaking strategic decisions like alliances with General Electric for the credit card business, bancassurance ventures through SBI Life, the formation of SBI Capital Markets, etc., could be taken. With segmentation, SBI could now get a better idea of the size of the market, its unique characteristics and needs. After evaluating and choosing them, it could use its different marketing mixes appropriately to target them successfully. Initially it had one eye-hole view of the market; now a better perspective, it was able to address its constituents more efficiently.

Questions

1. Did SBI have to reorganize itself to make its segmentation exercise effective?
2. How could it have used its different marketing mixes to uniquely address the different needs of its customers?
3. Can small service firms, like cooperative banks, go in for segmentation? Explain.