CHAPTER ONE

Overview of Marketing and Service Marketing

1.1.Meaning and definition of marketing

"Marketing is the social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products and/or services of value with others." — ***Philip Kotler***

- Marketing is management process responsible for identifying, anticipating and satisfying customer requirements profitably." ***The Chartered Institute of Marketing***

Cont…

- "Marketing is the process by which companies create customer interest in products or services. It generates the strategy that underlies sales techniques, business communication, and business development. It is an integrated process through which companies build strong customer relationships and create value for their customers

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large." — ***American***

Many scholars define marketing as follows:

1. **According to American Marketing Association, marketing is defined as the performance of business activities that direct the flow of goods and services from producers to consumers or users**

2 .**According to William J. Stanton, Marketing is a system of business activities designed to plan, price, promote and distribute want satisfying goods and services to present and potential customers.**

3, **According to Evans and Berman, Marketing is the anticipation, stimulation, facilitation, regulation and satisfaction of consumer and public's demand for products, services, organizations, people, places, and ideas through the exchange process.**

4. **According to Philip Kotler, Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. The definition of marketing rests at the following core concepts:**

Classification of a Product

1.1 Consumer products

- Consumer products are products bought by final consumers for personal consumption. These products can be classified on the basis of consumer shopping habits. Consumer products include convenience products, shopping products, specialty products and unsought products.

A. Convenience products:

Convenience products are consumer products that the consumer usually buys frequently, immediately with a minimum of

B. Shopping products:-

Shopping products are less frequently purchased consumer products that consumers compare carefully on suitability, quality, price and style. When buying shopping products, consumers spend much time and effort in gathering information and making comparisons. Example includes furniture, clothing, used cars major appliances and hotel and airline service. Marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in the comparison efforts.

CONT……

- ***C. Specialty products:***
  Specialty products are consumer products with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands and types of cars, high priced photographic equipment, designer clothes, and the services of medical or legal specialists. Buyers normally do not compare specialty products. They invest only the time needed to reach dealers carrying the wanted products.

D. Unsought products:
They are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Most major new innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance, cemetery plots, and blood donations to the Red cross. By their very nature, unsought products require a lot of advertising, personal

Industrial products

1. ***Materials and parts*:** refers to those products that make up the final product of the company (component part of the final product). E.g. raw materials, manufactured materials, parts etc.
2. ***Capital items*:** are products that aids in the buyers production or operation. They neither make up the final product of the company nor are consumed but are used to produce the final product of the company for e.g. installations (buildings, offices, main machineries etc), accessories such as portable tools and equipments etc.
3. ***Supplies and services:*** supplies refer to those products that are consumed in the production process or operation of buyers. E.g. lubricants, oil, paper, pencil, repair and maintenance items etc. Services refer to maintenance and repair services that the firm purchases from outsiders or services supplied by

1.2 Situations that led to focus on Service

The size of the service sector is increasing in many countries around the world. Most developed and emerging countries experience the growth of many service industries, which contribute considerably to the national economies. The service sector accounts for two-thirds of the value of the GDP globally, and it is an important source of employment and exports for many countries.

- The importance of the service sector in national economies is unquestionable. Moreover, as a consequence of the rapid development of service industry, world economy is experiencing substantial change in its history causing many far-reaching effects. New service era is characterized by the dominance of service jobs, which require professional knowledge as well as new skills and qualifications, especially in the area of customer service. Traditional blue-collar work has been gradually replaced by professional, managerial, and administrative work performed in offices and service outlets.

1.3. Meaning& definition of service

According to A. Payne “service is activity which has some element of intangibility associated with it, which involves some interaction with customers or with property in their possession, and does not result in a transfer of ownership

- A change in condition may occur and production of the service may or may not be closely associated with a physical product” PhlipKotler suggested that”service is an activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”
- According to **American Marketing Association,** “Services are the activities, benefits or satisfactions which are offered for sale or are provided in connection with the sale of goods.” A service is an act or a performance offered by one party to another whose production may or may not be attached to the physical product.

1.4. Characteristics of service

***A, Intangibility*:** Services are intangible we cannot touch them are not physical objects. C Consumer feels that he has the right and opportunity to see, touch, hear, smell or taste the goods before they buy them. This is not applicable to services. The buyer does not have any opportunity to touch smell, and taste the services. While selling or promoting a service one has to concentrate on the satisfaction and benefit consumer can derive having spent on these services.

***B, Perish ability* :**Services too, are perishable like labor, Service has a high degree of perish ability. Services differ from goods, as they cannot be saved, stored, resold, or returned. This is in contrast to goods that can be stored in inventory, resold, or returned if the customer is unhappy.

***C, Inseparability*:** Services are generally created or supplied simultaneously. They are inseparable. Whereas most goods are produced first, then sold and consumed, most services are sold first and then produced and consumed at the same time. In many cases customers are present when the service is being produced, so the producer and customers interact

CONT.....

D, Heterogeneity: This character of services makes it difficult to set a standard for any service. The quality of services cannot be standardized. Unlike tangible goods, services are highly variable. This is because services are performances, frequently produced by the service personnel, which means that the performed services will not be precisely alike. Thus, the variability of services might result in different levels of service quality. Another problem is that customers are usually involved in the service production process, so it can be difficult to carry out monitoring and control to ensure consistent standards (e.g., hairdressing, baby-sitting).

***E, Ownership*:** In the sale of goods, after the completion of process, the goods are transferred in the name of the buyer and he becomes the owner of the goods. But in the case of services, we do not find this. The users have only an access to services. They cannot own the service. **For e.g.** a consumer can use personal care services or medical services or can use a hotel room or swimming pool, however the ownership remains with the providers.

Services characteristics	*Implication*	*Responses*
Intangibility	*Difficulties with assessing quality* *Increased level of uncertainty* *Perceived high level of risk*	*Adding physical evidence* *Developing strong brands* *Facilitating recommendation* *Stressing tangible elements in advertising*
Inseparability	*Production process affects the service outcome* *Employees affect the service outcome* *Customers affect each other*	*Monitoring and controlling the service production process* *Management of consumer-producer interaction* *Precisely defining target market*
Heterogeneity	*Different levels of service quality* *Employees affect the service quality*	*Quality control procedures* *Selecting, training, motivating and controlling and service personnel*
Pershablity	*Services cannot stored, saved, resold and returned*	*Management of demand* *Promotion and price policies*

1.5. Service marketing mix

A number of analysts redefined the marketing mix adding additional variables which in practice enable services marketers to better communicate with and satisfy their customers. The extended marketing mix is composed of 7 Ps, which includes the traditional 4 Ps, as well as process associated with service delivery, physical environment and people. A brief overview of the marketing mix elements for services is given below with more detailed description presented in the subsequent chapters.

1, Product. Products are the means by which organizations seek to satisfy their customers. In this sense, a product is an offer which consists of any elements - tangible and intangible ones. A service product is composed of core product that respond to the customers' primary needs and supplementary services which constitute value-added enhancements. Planning the marketing mix begins with creating a service concept which involves product-mix decisions aimed at offering value to customers which would satisfy their needs better than competing offers.

CONT.....

2, Place:-.Place decisions refer to the ease of access that customers have to service. Service distribution involve physical location decisions, decisions about which intermediaries to use, and what channels to choose - physical or electronic ones. In many cases service firms offer customers choice of distribution channels, which may include visiting a branch, dealing with an agent, using the Internet, call centers or self-service machines like ATMs. Nowadays, speed and convenience of place and time have become important determinants of service delivery.

***3,Promotion*: -**No marketing program can succeed without communications, which involves different methods and techniques used to deliver information about offer, persuade target customers of the benefits of specific brand, and encourage them to take action at specific times. The traditional promotion mix includes advertising, personal selling, sales promotion and public relations as well as e-marketing. In the case of services marketing these elements are also important, but because services are produced and consumed at the same time, service personnel

CONT.....

4,Price:- Pricing is an important strategic issue because it is a significant indicator of products' quality. In services marketing the role of pricing is even more important, as many services are intangible in nature, so customers rely mostly on price while assessing the level of their quality. In general, pricing decisions involve choices regarding the level of prices to be charged, discounts, terms of payment and the extent to which price differentiation is to be pursued. These decisions are similar to the issues facing good marketer, however some differences occur. Most services are perishable and they cannot

5, People:- Many services require direct interaction between customers and the firm's personnel that is why people often become an important part of the service experience. The appearance, attitude, behaviour and skills of the service personnel influence the customer's perception of the service. Therefore, recruiting, training, motivating and rewarding service employees cannot be only regarded as human resources decisions, but also marketing decisions.

CONT.....

6, Physical evidence. The intangible nature of services and the fact that services are produced and consumed at the same time mean that it is difficult to judge a service before purchase. Customers perceive greater risk and uncertainty while taking buying decisions and choosing among competing services. To reduce this risk and persuade customers to a specific service, marketers may use environment in which the service is delivered. The elements of this environment are tangible, so they can serve as an important indicator of service quality. The physical evidence includes such

7, Process:-Manufactured goods are produced in a factory, where quality standards are under control and customers themselves are not involved in the production process. Thus, production is of little concern to the consumers of manufactured goods, whereas in services customers participate in the production process and are often involved in co-production. As flow of activities within the service delivery provide customers with evidence on which to judge a service, creating and delivering services requires

Product	Physical good features, Quality level, Accessories, Packaging, Warranties, Product lines and Branding
Price	Flexibility in Price level, Terms of payment, Differentiation Discounts and Allowances
Promotion	Promotion blend: Sales people: number, selection. Training, incentives Advertising targets, media types,- types of ads,- copy thrust Sales promotion and Publicity
Place	Channel type,Exposure, Intermediaries, Outlet locations, Transportation, Storage and Managing channels
People	Employees - recruiting, training, motivation, rewards, teamwork, Customers, education, training
Physical evidence	Facility design, equipment, Signage Employee dress Other tangibles - reports, business, cards, statements, - guarantees
Process	Flow of activities Standardized and customized Number of steps ❖ Simple and complex Customer involvement

Difference between service design and Product design

Service design is an intangible aspect while product design is tangible.

Services are generally created and delivered at the same time and cannot be held in inventory like actual products

Product	Service
Tangible	Intangible
Storable	Perishable
Control Quality with Data	Define Quality by Experience
Measure Output	Measure Outcome
Repeatable	Very Difficult to Repeat
Bonus	
Can be Patented	Very Difficult to Patent

1.6.Classification of service marketing mix

Classification based on Customer and Industrial Service Marketing.

- Service Marketing can be classified according to the market to which they are offered-

1. Services sold in the consumer market
2. Services sold in the business market

***1. Consumer Service Marketing*:** In the modern society, we come across many types of services sold to the consumer. We will describe briefly most important services:

A. *Food Services*: Restaurants, cafeterias and hotels are offering food services to numerous individuals and families who have firmly developed the habit of eating out. Small eating places offer simple and cheaper meals. Increasing tourism has also boosted the development of hotel industry. Then, we have also caterers who specialize in supplying food and service for

CONT.....

B. *Hotels and Motels:* people every day use lodging and boarding services all over the world. Tourism is growing and hotels and motels are growing in numbers every year. Modern hotels provide luxurious life to travelers and tourist population. Tourism is now considered a source of foreign exchange in all countries. Modern hotels provide numerous amenities, comforts and refined services.

C. *Personal Care Services:* Rising standards of living brought about development in the personal care services (helping a customer to be well groomed). These services are offered by health and fitness centers, beauty parlors, barber shops, laundries, dry cleaners, garment repair shops, shoe-repair shops, and so on.

D. *Entertainment Services:* Rising purchasing power and more leisure time are responsible for the steady growth of entertainment services. Movies, sports, amusement parks, circuses, car racing, cricket, billiards, music, dancing and drama are such popular forms of organized entertainment today.

CONT.....

F. *Communication Services* :We have now at our disposal latest means of communication such as telephone, fax, telex, internet, mobile phones, courier and postal services. Now we have radio, television and also satellite communications all over the world. Within a few minutes we can talk on phone with any person in Europe and America through satellite communication system.

G. *Insurance Services:* Insurance gives protection against risk, e.g., accident, fire, death, theft, sickness, unemployment and so on. People can save for their children's education, daughters' marriage, or for their retirement. Security of life and property provided by insurance gives us freedom from anxiety, and peace of mind.

H. *Financial Services :*Many consumers require the services of banks for financing their purchases of durable goods usually through in stalment sales. In foreign countries there is even easy house financing through bank loans. Home-owning is made easy with the help of mortgage loans. Modern high standard of living has become a reality for masses due to

2. Industrial Service Marketing

A. *Financial Services*: Banks, investment companies, accounting firms, financial institutions offer numerous financial services to business concerns. Finance is the life-blood of business. Long-term finance is required for fixed capital. Short-term finance is required for working capital. Merchant banking services are required for promoting new enterprises and floatation and marketing of new capital issues. Investment companies guide business about the purchase of shares, bond and property to ensure sound investment portfolio. Accounting firms help in the maintenance of accounts, planning for profit, taxation and auditing of annual accounts.

B. *Insurance Services*: Risk of loss in business is inevitable. Business risks are numerous. Many of them cannot be eliminated or avoided. But they can certainly be transferred or shifted. Insurance companies enable businesses to transfer many business risks conveniently. They voluntarily assume the risk of loss due to fire, danger of the sea, dishonesty of employees or due to accidents in the factories. We have

CONT.....

C. *Transport and Warehousing Services*: Marketers need these services for physical distribution of commodities. Flow of goods in the process of marketing is facilitated through transport and warehousing services. Transport provides equalization of supplies of physical products place wise, whereas warehousing assures equalization of supplies time wise. These two wings of physical distribution offer maximum customer service and satisfaction.

D. En*gineering Services*: There are specialized engineering firms to help businesses in the formulation and planning of new projects, designing and constructing of plant and buildings, installation of special equipment and its maintenance.

E. *Advertising and Promotion Services* :Advertising agencies are specialized institutions for selling their services in all forms of marketing communications. They act as marketing research agents for their principals. They help marketers in the preparation of promotion mix and the campaign for advertising and sales promotion.

CONT.....

F. *Office Services*: Business firms can buy a variety of office services. There are firms to sell cyclostyling and duplicating services. Some concerns are prepared to supply temporary office personnel, such as typists, filing clerks, stenographers and secretaries. Some firms specialize in providing office cleaning services and security services.

G. ***Law and Management Consultancy* Services:** Consultancy service firms offer numerous services to business concerns. They offer expert advice to top management on all managerial problems of production, finance, marketing, personnel and office administration. A consultant specializes in particular branch of business and sells his ideas, plans and solutions on any business problem.

CONT……..

H. ***Marketing Research Services*:** In today's scenario of a cut throat competitive environment, a competitive advantage plays a vital role in the success of a business. This is where market research gains importance. Knowledge about customers, consumers, competitors, suppliers etc., gives a competitive advantage to any firm.

I. ***Manpower Selection and Training*:** The success of any business depends upon the productivity of its human resources. It is very essential to select the right candidate for the right job. Further, continuous training is a must to see that the human resource is working to its maximum capability. The more skilled and updated the human resource the better will be the performance of the company. Some business organizations prefer to outsource this important function of selection and training of human resources. As such you have firms that specialize only in recruitment and training and perform this service for various business houses that require the same, for a fee.

CONT.....

II. *On the Basis of Skills and Expertise Required*: The basis of the level of skills required to render a set of services, as-

1. ***Professional (High Skill) Service Marketing*** – These services require a higher level of qualification and training to provide services, like doctors, lawyers, pilots, IT professionals, etc.
2. ***Non-Professional (Low Skill) Service Marketing*** – These services don't require any special prerequisites in skills, and can be performed by anybody with some practice, like office security guards, babysitters, courier delivery boys, etc.

- ***III. On the Basis of the Business Orientation of the Service Provider:*** This kind of service marketing depends on the business style or orientation (objective, purpose, aim) of the organization, as-

1. ***Commercial Organizations (Profit Oriented***) – The main objective here is to make a profit by providing service. They strive to do all that is required to earn profits by keeping the customers satisfied.
2. ***Non-profit Organizations (Service Oriented***) – The main objective here is to serve the target clientele, without any motive to earn any profit. Of course money is needed for running such an organization, and that is obtained from public donations, trust funds, or government

CHAPTER TWO

Consumer Decision Making and buying Behaviour for Services

2.1 Consumer buyers and industrial buyers.

Consumer buyers are those buyers who buy for their own personal consumption, not for further selling. They are final consumers of the product. Such business that sells products to final consumer is termed as Business to Consumer(B2C) and products that consumers buy is called consumer product.Non-business service s include leisure, entertainment, recreation, education, counselling etc.Operations approach to classification: every service is different (insisting that airlines‟ marketing has nothing to do with banks, insurance, motels, etc.). However, marketing views demonstrate a lot of similarities in sharply different services

- Consumer products are products bought by final consumers for personal consumption. These products can be classified on the basis of consumer shopping habits. Consumer products include convenience products, shopping products, specialty products and unsought products
- Industrial buyers are those buyers who buy products for further making of business. They are not final consumers rather get profit margins from selling products to those who

2.2 *Consumer Buying Behavior*

Consumer buying behavior means the behavior consumers exhibit when searching for information about product to buy, evaluate one brand against another, and when they are using and exposing the product after using it. In addition to a company's marketing mix and factors present in the external environment, a buyer is also influenced by personal characteristics and the process by which he/she makes decisions. A buyer's cultural characteristics, including values, perceptions, preferences, and behavior learned through family or other key institutions, are the most fundamental determinant of a person's wants and behavior. Consumer markets and consumer buying behavior have to be understood before sound marketing plans can be developed.

The consumer market buys goods and services for personal consumption. It is the ultimate market in the organization of economic activities. In analyzing a consumer market, one needs to know the occupants, the objects, and the buyers' objectives, organization, operations, occasions and outlets.

2.3 The buying decision process

- In goods purchasing, final consumer's decision process is the way in which people gather and assess information and make choices among alternative goods, services, organizations, people, places, and ideas. It consists of the process itself and factors affecting the process.
- Generally speaking, buyers run through a series of steps in deciding whether to purchase particular product. Some purchases are made without much thought. You probably don't think much, for example, about the brand of gasoline you put in your car; out just stop at the most convenient place. Other purchases, however, require considerable thought. For example, you probably spent a lot of time deciding which college to attend or which brand car to purchase. There are five steps that are involved in the consumer buying process. These steps are: *need recognition, information search, evaluation, purchase decision* and *post purchase evaluation* Factors affecting the process are consumer's demographic, social, and psychological characteristics. Sometimes, all six stages in the process are used; other times, only a few steps are utilized. At any point in the process, it may be ended.

Cont.....

1, Need recognition: - normally any purchase decision begins with the recognition of needs or problem. The need may be triggered by internal stimuli such as hunger, thirst or sex. For e.g. before thinking about purchasing something to eat a person first should be hungered. It may also be triggered by external stimuli for e.g. a person passes a restaurant and smell nice food that stimulates his hunger. In this case, the stimuli are external. At this stage, the marketer should research consumers to find out what kinds of needs or problems are associated with the product, what factors brought them about, and how they led the consumer to this particular product. Then they can develop marketing strategies that that trigger consumers'

2, Information Search: - Information search involves listing alternatives that will solve the problem at hand and a determination of the characteristics of each. Search can be internal and/or external. As risk increases; the amount of information sought also increases. Once the information search is completed, it must be determined whether the shortage or unfulfilled desire can be satisfied by any alternative. The internet has become a major source for consumer shopping information.

Cont.....

3, Evaluation of Alternatives:
The alternatives are evaluated on the basis of the consumer's criteria and the relative importance of these criteria. They are then ranked and a choice is made. Generally, marketers should study buyers to find out how they actually evaluate brand alternatives. If they know what evaluative process go on, marketers can take steps to influence the buyer's decision.

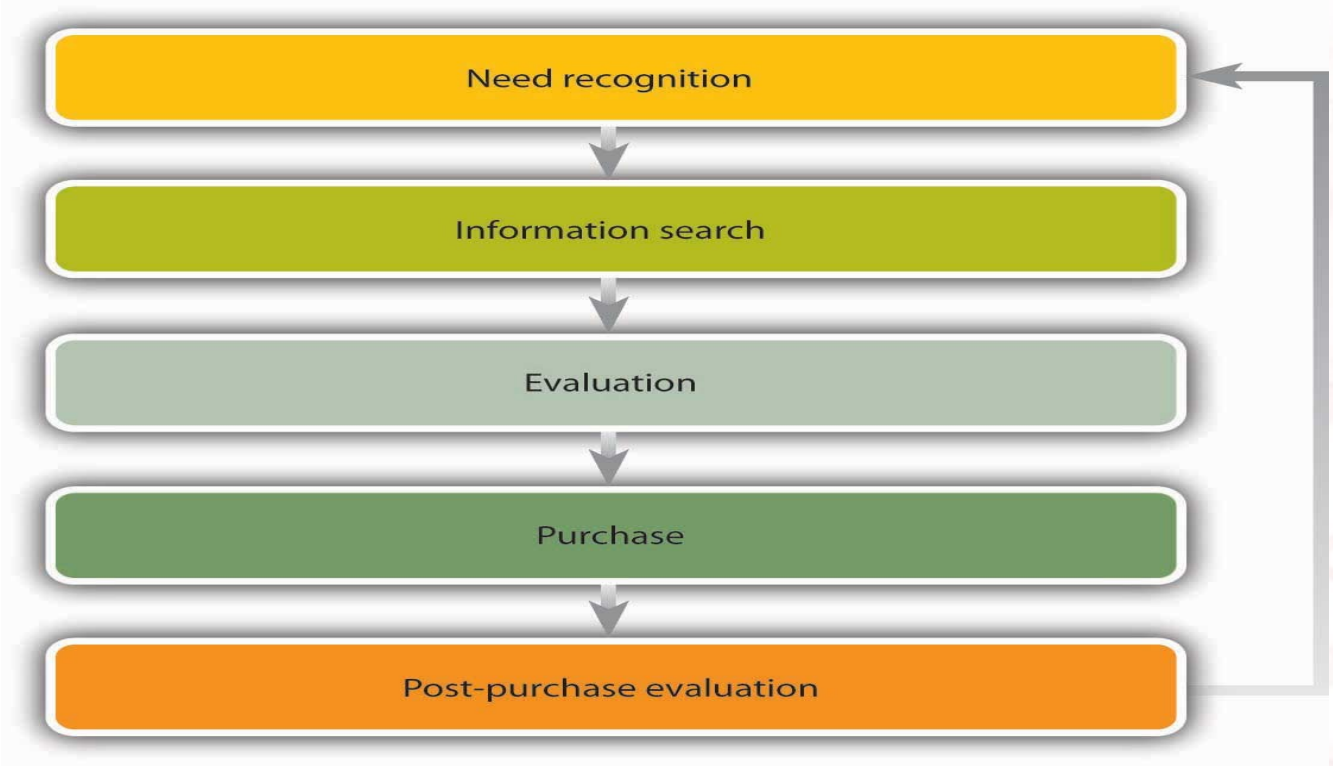
***5, Post-purchase Behavior*:**
Frequently, the consumer engages in post-purchase behavior. Buying one item may lead to the purchase of another. Re-evaluation of the purchase occurs when the consumer

4, Purchase Decision: The purchase act involves the exchange of money or a promise to pay for a product, or support in return of ownership of a specific goods, the performance of a specific and so on. Purchase decisions remaining at this stage center on

- The place of purchase
- Terms
- Availability
- If the above elements are acceptable, a consumer will make a purchase and use the product.

In buying and using products Consumers develop different feelings:’

- If bought and used products satisfaction level ***meets*** expected performance of customers, consumers get ***satisfied***
- If bought and used products satisfaction is ***less than*** expected performance of customers, consumers get satisfied ***dissatisfied***
- If bought and used products satisfaction level ***exceeds*** expected performance of customers, consumers get satisfied ***delighted***.


Need recognition
Information search
Evaluation
Purchase
Post-purchase evaluation

2.4.Service consumption stages

Service consumption can be divided into *three main* stages

***1*, Pre-purchase**

2, Service encounter,

3, post-encounter.

Pre-purchase Stage

This stage begins with the identification of one's need and continues through information search, evaluation of alternatives to purchase decision. The decision to buy service is triggered by a person', inseparables need or need arousal. Once a need is recognized , people usually start to look for information, what helps them better evaluate possible alternatives. While searching for information, they may rely on their past experience or use external sources such as advertising, online searches, and recommendations from service personnel, friends, and family. Then consumers select among acceptable options and decide whether to buy or not to buy particular service. When faced with several alternatives, customers compare different service offerings, basing on their attributes.

Cont.....

1, Search attributes are tangible characteristics that a consumer can determine before buying that is associated with service. Search qualities include style, colour, texture, smell, taste, and other tangible features. These attributes reduce the level of uncertainty while making a purchase decision. They mostly refer to goods, such as clothing, furniture, cars and food, which are tangible in nature, however, some search attributes can be found in services, too. For example, it is possible to assess many tangible features before visiting a particular hotel, restaurant, or a fitness club.

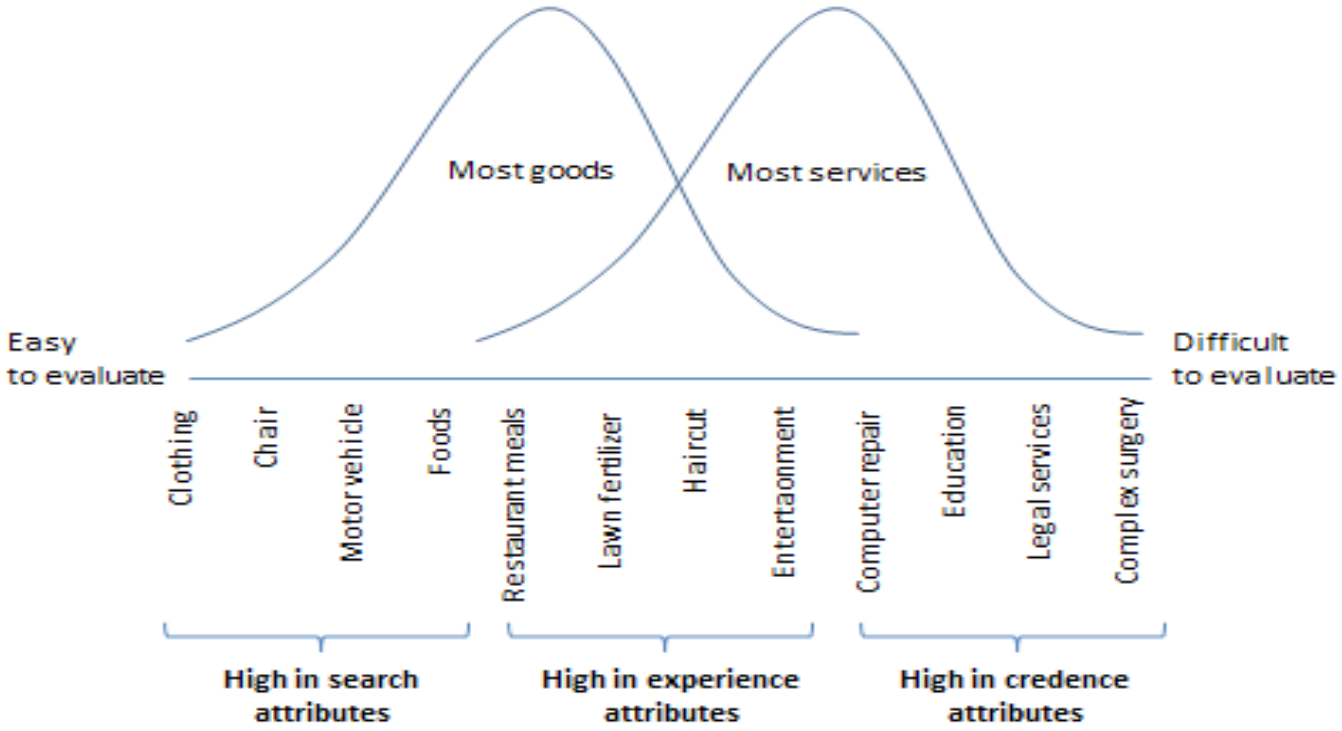
2, Experience attributes are those that can be evaluated before purchase or during consumption. Customers must first experience the service and then they are able to assess such attributes as customer service, reliability, and atmosphere. Many services like entertainment, restaurant meals and vacations are high in experience qualities. They are more difficult to evaluate than the products high in search qualities, because they have to be purchased and consumed before assessment.

Cont.....

3 ***Credence attributes are*** characteristics that are hard or even impossible to evaluate after purchase and consumption. In comparison to products high in search or experience qualities, services with prevailing credence qualities are the most difficult to evaluate because customers may not have enough knowledge to assess the performance and level of quality of a specific service. Examples of offerings high in credence attributes include surgery, auto repair and legal services, since few customers possess medical, mechanical skills or legal knowledge.

Because the experience and credence attributes dominate in services, customers have more difficulty in evaluating possible alternatives, so the perceived risk associated with purchase is higher. To reduce the level of risk and persuade customers to buy particular service, suitable strategies can be implemented. Depending on the nature of a service, marketers may offer service guarantees and free trials, display credentials, use physical evidence, provide information using brochures, websites, videos, and other forms of advertising. These efforts may influence a purchase decision when a customer is considering different alternatives. The pre-purchase

Cont.....


Most goods
Most services
Easy to evaluate
Difficult to evaluate
Clothing
Chair
Motor vehicle
Foods
Restaurant meals
Lawn fertilizer
Haircut
Entertainment
Computer repair
Education
Legal services
Complex surgery
High in search attributes
High in experience attributes
High in credence attributes

Service encounter stage

After making purchase decision, customers move on to the next stage of service consumption – the service encounter stage. This stage involves a series of contacts with the service firms which cause certain consumers' reactions. Additionally, the decision to buy a specific service is accompanied by a set of expectations about the service performance. So, in the case of services the service encounter stage is more complex and complicated, because marketers have also to be aware of customers' expectations, understand their feelings and reactions during the service delivery process and be able to deal with them. This means that besides professional performance of a service, the ability to influence people's moods and emotions in positive ways is crucial for customers' perception and evaluation of their service experience

cont.....

Moreover, as some customers receiving service at the same time may have an impact on the satisfaction and dissatisfaction of other customers, marketers should understand how to cope with a number of customers, resolve problems within a group, and be sensitive to cultural differences. In general, since a service encounter consists of a series of events and interactions between a service provider and customers, firms need to carefully design service process and manage those operations that have effect on customer satisfaction. Marketers may use different strategies and policies aimed at improvement of service performance and increasing customer satisfaction. They include proper selection of service personnel, providing training in specific skills related to service delivery, creation of service environment adequate to character of a service, deciding which aspects of the service should be performed in the presence of the customer and which should be performed in the backstage.

Post-encounter stage

- In the post-encounter stage, customers evaluate the service performance by comparing the service they perceived and received with their expectations. As satisfaction is a key outcome of the marketing process, marketers need to understand the sources of customers' satisfaction or dissatisfaction. Furthermore, there is an evidence of links between the level of customer satisfaction and the firm's overall performance, which means that by creating more value for customers, the firm creates more value for its owners. The reasons why customers might be satisfied or not, differ depending on their expectations based on personal needs and preferences, level of knowledge, previous experience, word of mouth communications, and promises given by service firm. During the decision-making process, customers assess the attributes and risks related to a service offering and develop their expectations.

The consumer's emotional, mental and behavioural responses that precede or follow these activities.

- **1, purchase activities:** the purchase of goods or services; how consumers acquire products and services, and all the activities leading up to a purchase decision, including information search, evaluating goods and services and payment methods including the purchase experience
- **2, use or consumption activities**: concerns the who, where, when and how of consumption and the usage experience, including the symbolic associations and the way that goods are distributed within families or consumption units
- **3, *Disposal activities*:** concerns the way that consumers dispose of products and packaging; may also include reselling activities in second-hand markets.

2.5.Improving service quality

- Service quality is an important element of differentiation and is crucial to customer satisfaction.
- The two concepts of service quality and customer satisfaction are intertwined, however, they differ in meaning. Whereas customer satisfaction is a short-term transaction-specific measure, service quality is related to the long-term evaluation of the service performance. Companies delivering services of high quality experience a number of benefits including higher customer satisfaction, positive word of mouth, good publicity, repeated purchases, and increases in market share.

Research studies have shown that they are different dimensions of service quality including tangibles (appearance of physical elements),

- ***Reliability*** (ability to perform the service dependably and accurately),
- ***Responsiveness*** (willingness to help customers and provide prompt service),
- ***Assurance*** (credibility, security, competence, and courtesy),and
- ***Empathy*** (easy access, good communications, and customer understanding).

Five potential gaps within a service company, which might lead to the service gap – the difference between customers' expectations and their perceptions of what was delivered

1, ***The knowledge gap:*** ***This*** gap refers to the difference between management perceptions of customers' expectations and customers' actual expectations. The size of the knowledge gap depends on several factors, such as the company's research orientation, communication between the first-line employees and management, and the complexity of the organizational structure. The knowledge gap tends to decrease when the consumer research is conducted regularly, the information flow within a company is ensured, and the appropriate organizational structure and procedures that promote communication are employed.

2, ***The standards gap***: Even if management accurately identified customers' expectations, there might be a gap between management understanding of customers' expectations and the standards set for service delivery. To minimize this gap, management should use a flowchart with detailed description of all firm's operations and specification of the way the system should operate and desired behaviour of frontline staff.

CONT.....

***3, The delivery gap*:** This gap occurs when there is a noticeable difference between the actual performance of the service and specified standards. The existence and the size of the delivery gap depend on the desire and ability of service staff to perform service according to standards set by management. This aspect of service quality is intertwined with human resources policies employed by the company. Proper selection of candidates, good training and motivation system as well as implemented control procedures help to minimize the delivery gap.

4, The communications gap: ***The*** expectations regarding service quality might be also influenced by messages delivered through communications channels to customers. The communications gap might be caused by the difference between the quality of service described in the external communications and the quality of service actually delivered. Thus, marketing managers need to cooperate with other managers responsible for advertising and sales personnel to ensure that messages sent through communications channels would be understandable and realistic.

CONT.....

5, ***The service gap:*** ***This*** gap appears as a consequence of other gaps and is actually perceived by customers. The service gap is a difference between customers' expectations about service quality and their perceptions of the service quality that is delivered. To Improve Service QualityProper understanding of the thought processes consumers use in their decision making is an important behavior to try and understand. Marketers want to try and tap into what makes consumers tick as they ponder their choices and learn just what the types of things lead to a final decision. In this way they can align their products to remain in the running and be hopefully chosen.

CONT.....

Product use/complements

Understanding how consumers use products and what complement items are used is of value. Marketers who gain insight to how products are used and what accompanying products are purchased can then use this information to design products and develop complement products that are enticing and attractive to consumers.

Environmental influences

Environmental influences also play an important role in consumer behaviour. Culture, family, types of advertising and the media can all influence the ways consumers make choices. This is one of the reasons why advertisements are designed to be attractive and consumers identify with the content.

Consumer knowledge

Social awareness is also a factor. Dr. Perner brings up the example, "aggressive marketing of high fat foods, or aggressive marketing of easy credit, may have serious repercussions for national health and economy". With any information on the Web readily available, there is much higher level of consumer awareness and knowledge.

CONT.....

Motivation

What motivates consumers is also an important concept for marketers to understand. This is another valuable area to tap into because products, services and marketing campaigns can be designed to flow along the same path as consumer motivating factors.

Social media marketing

Friends influencing friends is also an important behaviour today's marketers need to understand. Some statistics, as e Marketer points out that social users are "somewhat" influenced by the recommendations provided by friends on social networks. It is unwise for marketers to ignore this very popular and valuable channel of advertising. Social media has become an important channel, and will likely continue to maintain a strong presence in the lives of consumers; however, how it is leveraged will depend on how social networks are perceived and utilized.

CHAPTER THREE

SERVICE MARKETING STRATEGIES

3.1 Service Market Segmentation

- Successful services marketing starts with an understanding of customers' wants and needs.
- Some useful bases for identifying customer segments for a variety of services include:

A. Demographic

- Consumers: Income, age, family life cycle, etc.
- Business: company size, location, number of employees, etc.

CONT.....

B. Geographic

- Consumer: proximity to the store, type of neighbourhood, etc.
- Business: concentration relative to an industry, sales territory characteristics, etc.

C. Psychographics/Lifestyle: final consumers can be segmented into groups based on their psychographics or lifestyle as follows.

- Example, activities, interests, opinions

CONT.....

D. Benefits sought: customers expect certain benefits from the purchase of primary services and from the services that accompany the purchase of physical goods.

- Benefits may include convenience, avoidance of risk
- e.g. Warranties, money-back guarantees or exceptional value for the price.

3.2 Managing Service Differentiation

- Service marketers frequently complain about the difficulty of differentiating their services.
- A commonly used technique of differentiation used by service companies is price differentiation.
- They believe that customers view a service as fairly homogeneous
- The alternative to price competition is to develop a differentiated offer, delivery or image.

offer

- Offer: The offer can include innovative features
- What the customer expects is called the primary service package, and to this can be added secondary service features.
- In the airline industry, various carriers have introduced such secondary service features as movies, merchandise for sale, air-to-ground telephone service etc.
- Hotels offer rooms for high-tech travellers who need accommodations that will support computers, fax machines, and e-mail

Cont.....

Delivery

- A service company can hire and train better people to deliver its service
- Image
- Service companies can also differentiate their image through **symbols and branding**.
- For example Sheraton hotel uses the lion as a brand.
- It uses the brand on different materials it uses and promotes its services

3.3 Service Marketing Mix

- The service marketing mix constitutes the variables service firms can manage in order to produce sale and profits.
- The elements of the service marketing mix include :

A. Service Outcome(product)

The product component of the marketing mix is the outcome of the service. It consists of two components: the technical and the functional.

Cont.....

- The technical outcome: is the end result of the service or the "what" of the service.
- Example: the technical outcome for the Ethiopian Airlines is the arrival at the destination for which the ticket was purchased.
- For the dental services, it would be the completed root canal or the completed crown

B, Prices

- an extremely high price may be viewed by consumers a not worthy.
- lower prices tend to convey lower quality
- For example, we need to pay high in a restaurant that we get personalized services than in a restaurant that gives us lower service so long as the food offered in the restaurant meets at least the minimum requirement.

Cont.....

C. Distribution: is the availability and accessibility of a service to consumers.

- Services are limited to the immediate geographical location to the business

D. Corporate and Brand Image

E. Promotion: Advertising, sales promotions and personal selling are the major components

Firm or brand image

- Firm or brand image is the overall, or global, opinion customers have of a firm, organization, or particular brand.
- Consumers tend to patronize firms and purchase brands that they perceive to have a high image or an image that is consistent with their exceptions.
- Personal experience, word-of-mouth communications from others, and advertising all have an impact on the image consumers hold.

3.4.Managing service quality

- Parasuraman, Zeithaml, and Berry found five determinants of service quality. These are presented in order of importance.

A. **Reliability:** The ability to perform the promised service dependably and accurately.

B. **Responsiveness:** The willingness to help customers and to provide prompt service.

C. **Assurance:** The knowledge and courtesy of employees and their ability to convey trust and confidence.

D. **Empathy:** The provision of caring, individualized attention to customers.

E. **Tangibles**: The appearance of physical facilities, equipment, personnel, and communication materials.

Various studies have shown that excellently managed service companies share the following common practice

A, Strategic concept: Top service companies are "**customer obsessed**". They have a clear sense of their target customers and their needs.

They have developed a distinctive strategy for satisfying these needs.

B. Top management commitment to quality: Top service companies are committed to service quality.

C. High standards: The best service providers set high service quality standards.

D.Monitoring systems: Top firms audit

Cont.....

E. Satisfying customer complaints: The need to resolve a customer problem in a satisfactory manner is critical.

- On average, a satisfied customer tells three people about a good product experience, but the average dissatisfied customer grips to eleven people.
- If each of them tells still other people, the number of people exposed to bad word of mouth may grow exponentially.

Cont.....

F. Satisfying both employees and customers: excellently managed service companies believe that employee relations will affect customer relations.

- Management carries out internal marketing and provides employee support and rewards for good performance.
- Management regularly audits employee job satisfaction..

3.5.Principles of service quality

- The following three underlying principles should be kept in mind when discussing the concept of service quality.
- Service quality is more difficult for the consumer to evaluate than the quality of a good.
- Service quality is based on consumers' perception of the outcome of the service and their evaluation of the process by which the service was performed.
- Service quality perceptions result from a comparison of what the consumer expected prior to the service and the perceived level

Cont.....

- The process used by consumers in evaluating services differs from the process used for goods.

Three qualities are being evaluated:

1, Search qualities: are attributes that consumers can evaluate prior to purchasing a service or good. It includes such items as colour, style, fit, feel, smell, and price.

Consumer goods such as shoes, jeans, refrigerators, and food are high in search qualities

Cont.....

2. Experience qualities: are attributes that consumers can evaluate only during or after the consumption process. Consumer goods and services high in experience qualities are food, catering services and meal entertainment.

- Business services high in experience qualities include janitorial services, delivery services and repair type services.

3. Credence qualities: are attributes that consumers have difficulty evaluating even after the consumption is complete.

Consumer services such as accountant

3.6.Measuring service quality

- When evaluating service quality, consumers examine five dimensions:

i. **Tangibles**: include the service provider's physical facilities, their equipment, and the appearance of employees.

ii. **Reliability**: is the ability of the service firm to perform the service promised dependably and accurately.

iii. **Responsiveness**: is the willingness of the firm's staff to help customers and to provide them with prompt service.

Cont.....

It may be illustrated through three principles:

- ✓ Offering or providing service that goes beyond what is being asked.
- ✓ Going out of the way to provide assistance, and
- ✓ Displaying a positive mental attitude that exemplifies the five star rating.

iv. Assurance: refers to the knowledge and curtsy of the company's employees and their ability to inspire trust and confidence in the customer.

v. Empathy: is the carrying, individualized attention the service firm provides each

Cont.....

- There are some methods of measuring quality of services. They are: SERVQUAL, Gap theory,

A, Using SERVQUAL to measure Service quality

- The SERVQUAL instrument is based on the premise that service quality is the difference between customers' expectations and their evaluation of the service they received.
- This instrument has two part questionnaires.

1. **1st Part:** asks customers to indicate the level of service they would expect from a firm in a particular industry

Cont.....

B. Gap Theory

- Gap theory is the method for calculating service quality that involves subtracting a customer's perceived level of service received from what was expected.

3.7.Model of service quality

- To evaluate the quality of service, consumers will compare the service they receive with the service they expected.
- The formula would be P - E, with P being the consumer's perceived level of service received and E being consumer expectations prior to the service encounter.
- A negative number indicates that expectations were not met. A zero indicates consumer expectations were met.
- A positive number indicates consumer expectations were exceeded.

Cont.....

- Parasuraman, Zeithaml, and Berry formulated a service-quality model that highlights the main requirements for delivering high service quality.
- The model identifies five gaps that cause unsuccessful delivery.

Gap One

- It is the difference between what customers expect from a service and what management believes customers expect from a service.
- Its cause is failure of management to identify customer expectations correctly.
- Hospital administrators may think that patients want better food, but patients may be more concerned with nurse responsiveness

Cont.....

The following strategies can be applied to reduce **gap one.**

- ✓ Communicate with customers about what they expect.
- ✓ Conduct marketing research to learn what customers expect.
- ✓ Encourage upward communications within the service organization.
- ✓ Decrease the number of layers of management.

Gap Two

It is the difference between management's perception of consumer expectations of a service and the service quality specifications.

- **Causes of Gap Two are:** resource constraints, market conditions and management indifference.
- Management might correctly perceive the customers' wants but not set a specified performance standard.

Hospital administrators may tell the nurses to give "fast" service without specifying quantitatively what ‘fast’ means.

The strategies used to reduce gap two are:

- ✓ Top management commitment to providing service quality.
- ✓ Develop service quality goals.

Gap Three

It is the difference between the service quality specifications for a service and the delivery of these specifications by the service provider.

- It is the difference between the service quality specifications for a service and the delivery of these specifications by the service provider.

Causes of Gap Three are :

- ✓ Employees are unaware of service specifications or they may be poorly trained,
- ✓ Employees do not have the skills or incapable to perform the service specifications,
- ✓ Employees are unwilling to provide the service according to the service specifications,
- ✓ Employees may be held to conflicting standards, such as taking time to listen to customers and

Cont……

- **The strategies to reduce Gap Three are:**

✓ Enhance teamwork among the employees

✓ Ensure there is a good employee job fit

✓ Ensure there is a good technology job fit

✓ Provide employees some control on how they can perform the service and power to modify the service to meet consumer requests

✓ Develop a supervisory control system that rewards employees for providing service according to the specifications

✓ Reduce employee role conflicts

✓ Reduce employee role ambiguity

Gap Four

It is the difference between the service that was delivered and the external communications of the firm. Consumer expectations are affected by statements made by company representatives and ads.

- **Causes of Gap Four are:**

1. Poor or lack of communication between service personnel and what is promised by advertising, marketing communications, and sales people,
2. Over promising by sales staff and other means of marketing communications.
3. For example, if a hospital brochure shows a beautiful room, but that patient arrives and finds the room to be cheap and tacky looking, external communications have distorted the customer's expectations.

Cont.....

Strategies to reduce Gap Four are:

- ✓ Increase horizontal communications between the marketing department and service personnel.
- ✓ Avoid the propensity to over promise to obtain sales. Be sure what is promised can be provided.
- ✓ Inform service personnel of promises made by salespeople and marketing communications.

Gap Five

This is Gap between perceived service and expected service. This gap occurs when the consumer misperceives the service quality.

- For example, the physician may keep visiting the patient to show care, but the patient may interpret this as an indication that something really is wrong.
- It is the sum of gaps one through four and is the overall comparison of what consumers expected from the service provider and their perception of the service they received from the service provider.

CHAPTER FOUR

Consumer expectations of services

4.1.Meaning of consumer expectations

- Consumer expectations are pretrial beliefs a consumer has about the performance of a service
- An understanding of the levels of consumer expectations will help companies to ensure that customer expectations are met.

Consumer expectations consist of five levels:

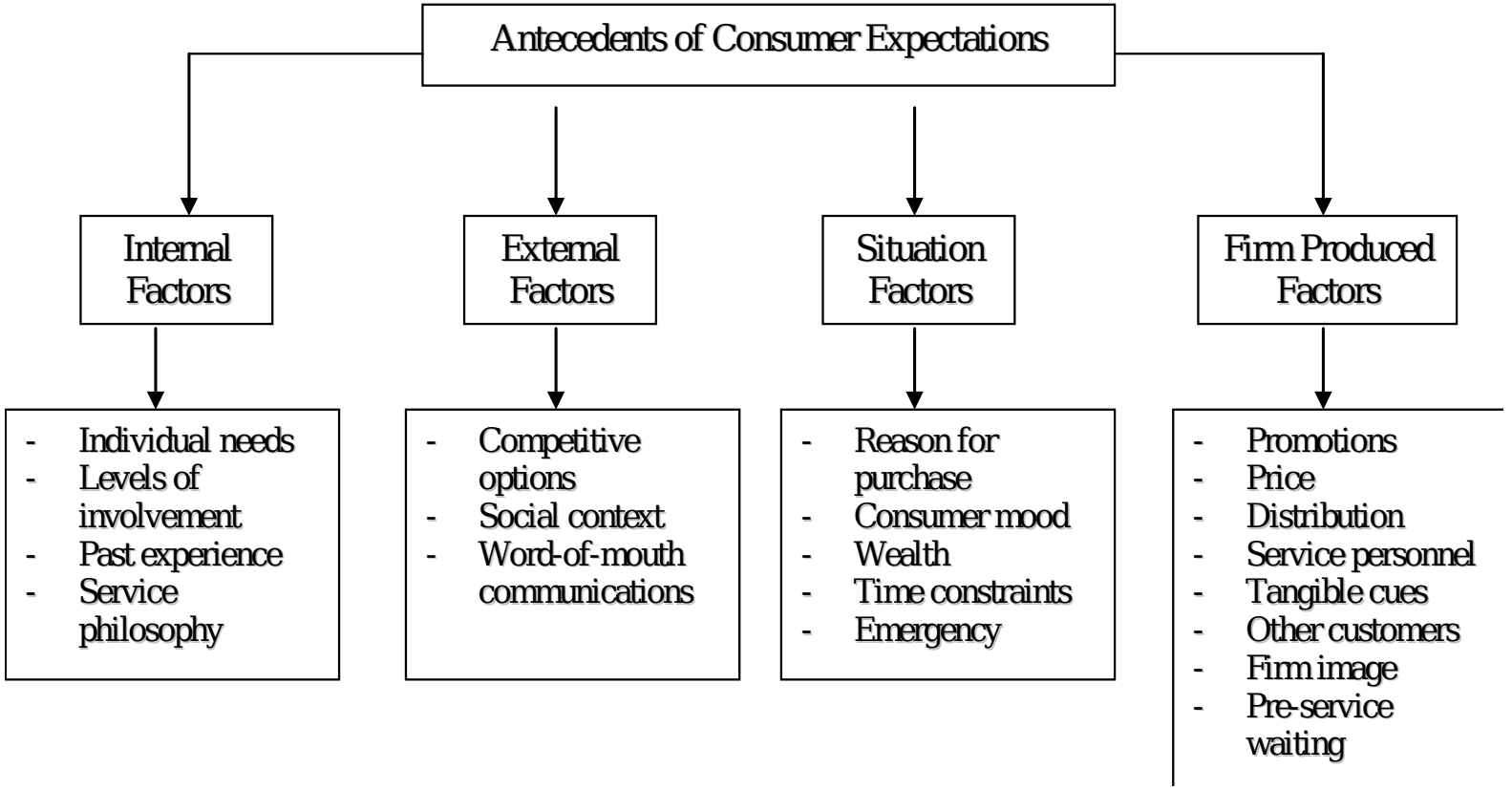
1. **ideal service level:** Is the 'wished for' level of service consumers would like
2. **desired service level:** is the level of performance the customer wants or hopes to receive from the service. This level may be less than or equal to the ideal service level. It depends on what the

Cont……

1. **Adequate service level**: is the minimum level of service the consumer will tolerate and accept without being dissatisfied.
2. **Predicted service level**: is the area between the adequate level of service and the desired level of service. Services performed below the adequate level of service and outside the zone will not be acceptable.
3. **Zone of tolerance**: the level of service consumers actually expect from the service firm.

4.2.Antecedents of consumer expectations

In addition consumer expectations are impacted by an individual's personal philosophy of service, situational factors and the firm-produced factors of service personnel, tangible cues, other customers, firm image and pre-service waiting.



Cont……

A. Internal Factors: affecting a consumer's expectations of a service include the consumer's :

- personal needs, level of involvement, past experience, and service philosophy.
- These factors will impact a person's ideal, desired and adequate levels of expectations.

I, Individual Needs: According to Maslow, lower-order needs must be fully or at least partially satisfied in a sequential order before higher order needs will affect human behaviour.

- ❖ First level is physiological needs of food, shelter, and clothing.
- ❖ Once these needs are satisfied, individuals will move to the second level of needs, which are safety needs, such as security, protection from physical harm etc

Cont……

- The two higher-order needs of self-esteem and self-actualization are more difficult to satisfy.
- **Self-esteem needs** include the desire for status, esteem and respect from others.
- **Self-actualization** is an individual's attainment of all he or she can be.
- **Self actualization** is the summit of human needs and is rarely achieved only when the lower-order needs have been satisfied will individuals move to these higher order needs

Cont……

II. Level of Involvement

- Involvement has two effects on expectations.
- First, as the level of involvement increases, the gap between the ideal level of service and the desired level of service narrows.
- Second, as the level of involvement increases, the zone of tolerance decreases.
- Consumers are less tolerant when a service is less than ideal.
- The adequate level of service, the desired level of service, and the ideal level of service are almost the same. Low involvement services are just the opposite.
- The zone of tolerance is wider with the ideal, desired, and adequate levels of expectations being

Cont……

III. **Past Experience:** experience with a particular service vendor, experience with other vendor within the same industry, and experience with related services.

IV. Service Philosophy

- Some consumers, by nature, have high standards concerning the quality of service delivery and very little tolerance for deviation.
- Other consumers have lower standards and tend to be more tolerant of service deviations

Individuals develop their personal service philosophy through a combination of two inputs: hereditary and past experience.

- A major part of how individuals look at services is inherited or what they expect from services is based on their personality and temperament.
- However, past experience moulds and tempers the personality.
- In early childhood, individuals learn from observing others.
- Later in life, they learn from their own experiences.

Cont……

B. External Factors: The three external factors that affect consumer expectations are competitive options, social context, and word-of-mouth communications.

These factors can have an impact on all four levels of expectations. However, the primary impact is on the predicted level.

I, Competitive Options: expectations of services will not only be affected by other vendors in the same industry but by what is available in other service industries

II, Social Context

- People's desired level of expectations will often increase when they are with others who are important to them, while their zone of tolerance is normally reduced

Cont.....

III. Word-of-Mouth Communications

- Word-of-mouth communication can move from three sources: personal sources, expert sources, and derived sources and is used to solidify or establish the predicted level of service.
- For services with which consumers have little knowledge or experience, word-of-mouth communications can be used to establish the desired and ideal levels of service.
- **Personal sources:** are friends, relatives and work associates.
- **Expert sources** are sometimes sought out, especially for high involvement purchases.
- Consumers often believe experts will provide better information than personal sources.

Cont…….

Situational Factors

- Consumer expectations of a service are affected by such situational factors as the reason for the purchase, the consumer's mood, the weather, time constraints and whether the service is an emergency.
- **Situational factors:** are temporary changes in the normal state of things.
- These temporary changes impact what consumers expect from a service.

Cont.....

i. **Reasons for Purchase:** The reason the service is purchased can alter consumer expectations. For example: couples who has driven long distance on a particular day and another long distance drive next day wish to have a comfortable hotel to take a comfortable sleep.

ii. Consumer Mood: Individuals in a good mood tend to be more tolerant of service personnel

- Their zone of tolerance is greater and their expectation level of adequate service is lower.
- Individuals in a bad mood demonstrate the reverse characteristics.
- The tolerance zone is reduced and the expectation level of adequate service is higher.
- Realizing the importance of mood state on customer expectations, many service businesses have taken active steps

Cont.....

iii. Weather

- In normal weather, passengers expect airlines to arrive on time, but in bad weather, passengers realize there may be a delay.
- The desired level of service remains the same but the passenger's predicted level of service is reduced due to the inclement of weather conditions.

iv. Time Constraints

- Firms who use manpower for temporary workers modify their expectations when faced with time constraints.
- If a firm needs help immediately, they will expect manpower to be able to meet the need, but they will normally lower their predicted expectations of the person's work ability.

Cont.....

- If given several days notice, firms expect manpower to locate a person who fits the job specifications.
- Their zone of tolerance is less and their predicted service expectations normally coincide with their desired service expectations.
- **Emergencies**
- In an emergency, individuals expect hospitals to act immediately and their zone of tolerance is very small.
- The emergency room can have several serious cases, but if an individual believes his or her case is serious, the person expects the hospital to have a staff large enough to provide immediate care.

Cont.....

However, if the patient has stopped at the emergency room for a situation that is not serious or life-threatening, he or she will be more tolerant and will not expect immediate service if more serious cases are being handled.

D. Firm Produced Factors

- Consumer expectations are affected by promotions, prices, distribution, service personnel, tangible cues, other customers, firm image, and pre-service waiting.

I, **Promotions:** Promises made in advertisements and sales promotions will be used by consumers in forming their predicted level of service for a particular firm.

- **Advertising** modify a consumer's desired level of service, adequate level of service and zone of

Cont.....

- **Sales promotions** such as coupons and introductory offers will affect consumer expectations.
- **Sales personnel** have an impact on consumer expectations

ii. Pricing

- the general rules is that the higher the price, the higher the consumer's expectations of a service and the narrower the zone of tolerance.

Although the predicted level of service is directly related to the price, the width of the zone of tolerance tends to be inversely related, with the consumer becoming less tolerant as the price of the service rises.

Service firms must also be conscious of the pricing

iii. Distribution

- Customers believe each branch facility will offer approximately the same level of service because they are all run under the same corporate brand name.
- The availability and accessibility of a service to customers has an impact on their expectations.

iv. Service Personnel

- Conversations with service personnel also have an impact on expectations.
- Hence, the expectation of a customer depends on what the service personnel informs him/her.

v. Tangible Cues:

- consist of such things as the appearance of the interior and exterior of the facility, the furniture, the equipment used in the service, interior décor,

vi. Other Customers

If a customer observes another customer receiving personal attention, he may expect the same type of treatment.

He will probably be disappointed if he does not receive the same attention even though he may not have expected it originally.

vii. Firm Image

- The image consumers have of a firm will have an impact on their expectations of the service. if they have a high image of the firm, they will have high expectations.
- If the image is low, expectations will be low.

viii. Pre-service Waiting

- A customer visiting his service firm may expect to wait ten minute.
- If the wait is twenty or thirty minutes instead, the customer

Cont.....

- On the other hand, if the customer feels that the waiting was not the fault of the service firm, then he or she will be more tolerant.
- Another way waiting for a service affects consumer expectations is through its impact on mood.
- If customers feel the waiting is unnecessary and could have been prevented or reduced by the service firm, they tend to be in a bad mood.
- Customers in a bad mood are more critical of the service and have higher adequate service thresholds.
- Raising the adequate service threshold reduces customers' zones of tolerance.

4.3.Role of consumer expectations

A. During the Pre-Purchase Phase

- Consumer expectations influence the decisions of individuals during the pre-purchase phase.
- The higher the expectations a consumer has for a specific company, the greater the probability that he or she will purchase from that firm.
- Of course, other factors such as price, location, and past experience will also impact the purchase decision.
- It must be kept in mind that expectations of services during the pre-purchase process are relative to what is available.

B. During the Service Encounter phase

- Customer expectations are often modified during the service encounter.
- The zone of tolerance can also be modified during the service encounter.
- There are many factors that affect customers expectations during the service encounter as already discussed above. However, the major factor influencing expectations during the service encounter is the actions of service personnel.
- As they communicate with the customer, expectations may change.

C. During the Post-Purchase Phase

- Even after the service has been performed, consumer expectations can be altered. Consumer expectations are the biases for evaluating service quality.
- If expectations are met or exceeded, consumers are satisfied.
- If expectations are not met, consumers are dissatisfied.

4.4. managing consumer expectations

- Managing customer expectations is a critical component in the marketing plan of a service business.
- Consumer expectations must be managed during the pre-purchase phase, the service encounter, and the post-purchase phase.
- How customer expectations can be managed during each phase of the purchase process will be discussed as follows.

A. During the Pre-Purchase Phase

- Managing customer expectations during the pre-purchase phase consists of three steps.

1. Learn what customers expect.
2. Tell customers what they can expect
3. consistently provide the service that customers

Cont……

- There are three ways to learn about customer expectations.
- First is through their sales calls made by sales personnel, during which they pick up information about what customers expect.
- Second is through service personnel. When customers have problems, service personnel hear about the services that did not meet expectations.
- Third is through market research, such as conducting telephone or mail surveys of customers and non customers or developing focus groups.
- Learning customer expectations during the pre-purchase phase requires communication.
- The second strategy for managing customer expectations during the pre-purchase phase is to tell customers what they can expect.

Cont……

The second strategy for managing customer expectations during the pre-purchase phase is to tell customers what they can expect.

- Advertising, sales, personnel, service personnel, tangible cues, paint of purchase displays, and sales promotions are some of the methods that can be used.

The third strategy consists of providing consistent service.

- Past experience and word of moth are two critical variables used by consumers in making purchase decisions.
- By providing consistent service, customers form concrete expectations and tend to continue patronizing the same firm.

B. During the Service Encounter

- Three strategies can be used during the service encounter to manage customer expectations.
- First, service personnel must communicate with the customer during the service encounter.
- Second service providers should modify the service to meet the customer's expectations.
- Third, if the service cannot be modified, the service personnel should explain why the customer's expectations cannot be met.
- The goal during this phase is to ensure the service being provided matches the consumer's expectations.

C. During the Post-Purchase Phase

- Service firms have three strategies they can use after the service has been completed.
- First, companies should communicate with customers immediately after the service is completed to see if expectations were met.
- Second, firms can use a follow up program, such as an evaluation survey sent to the customer through the mail or a phone call.
- Third, companies should have a procedure for dealing with dissatisfied customers that will assist in managing future expectations.
- The goal during this phase is twofold.
- The primary goal is to communicate with customers to see if expectations were met.
- The secondary goal is to modify future expectations

CHAPTER FIVE

SERVICE ENVIRONMENT

5.1 INTRODUCTION

It defines the responses of customers to the service environment, the marketing strategies for the service environment and the design of the service environment.

5.2 .DIMENSIONS OF THE SERVICE ENVIRONMENT

The service environment consists of four dimensions: the physical facility, the location, ambient conditions and interpersonal conditions.

The physical facility: the exterior facility and the interior, which consists of the décor, furnishings, and equipment.

- Also includes the intangible elements, or ambient conditions of the service equipment, such as the temperature of the room and odors and noises that are present.
- **Interpersonal conditions/interactions** between customers and service personnel

5.3 Impact Of The Service Environment On Consumers

- The services cape can also affect employee attitudes and work motivation.
- Individuals who work in a comfortable physical environment tend to have better attitudes about work than employees who work in undesirable physical environment.
- If employees are proud of the way a service facility looks, they will take better care of the facility and motivated to be more productive for the company.

5.4 Response Of Customers to the Service Environment

- Individuals respond to their environment in three ways: Cognitively, affectively and psychologically
- **Cognitive Response**: refers to an individual's knowledge ,structure and beliefs created by contact with a person, place or thing.
- Cognitive responses to the environment influence a person's beliefs about a service business, their employees and what to expect from the service.

CONT.....

- **Affective Response:** refers to an individual's feelings and emotions that are created by contact with a person, place or thing
- Example: The pleasure-displeasure dimension refers to the degree a person feels good, joyful, happy or satisfied with an environment.
- The arousal-non arousal dimension refers to the degree a person feels excited, stimulated, alert, or active in an environment.

Physiological Response : refers to the

5.5 Behaviours Created By The Service Environment

- The environment around individuals elicits one of two behaviours: **approach or avoidance.**
- **Approach behaviours** : are the desire to stay, explore, or work in an environment (tendency to repeat)
- **Avoidance behaviours:** are the desire not to stay, explore, or work in an environment. In terms of customer behaviour include a desire to employ a firm and willingness to return to a business for future purchases(tendency not to repeat)

tendency not wanting to spend time in a

On the basis of environmental stimuli customer's behaviours are divided into four:

1. Arousal seekers
2. Arousal avoiders
3. Stimuli screeners and
4. Stimuli non-screeners

Cont….

1, Arousal seekers: are individuals who enjoy high levels of environmental stimulation.

2, Arousal avoiders: are individuals who prefer low levels of environmental stimulation, do not want to be in stimulating environment and will often avoid situations that they perceive are stimulating.

3, Environmental stimuli screeners: are individuals who can experience a high level of environmental stimuli and not be affected. They act as if nothing going on around them affects them.

5.6 Designing the Service Environment

A. Location

- **operational position**

✓ **Merchantability: Service must be sellable quality**

✓ **traffic interception: must be located where a large number of vehicles or pedestrians pass their facility.**

✓ **Cumulative: refers to the drawing power of a cluster of similar and complementary retail establishments.**

✓ **For example, hotels and restaurants appear to attract more business when they are located in cluster than when they are isolated.**

✓ **competitive attraction, competitive compatibility and**

CONT....

b) Physical Facility

- Components of the physical facility: includes the exterior appearance and the interior décor, layout, furniture and equipment.
- For new potential customers: the exterior of the facility is an important determinant in the purchase decision.
- Once an individual has utilized a service, the exterior appearance becomes less critical.

Operational Design	Exterior of the Facility	Interior of the Facility
Cost efficient	Should be designed to attract customers and make it easy for customers to patronize the business.	Should be designed to maximize efficiency and productivity
Customization	Should match the image the firm wants to project	Should be designed to meet the needs of customers
Technical service quality	Should convey an image of technical expertise	Should be designed to maximize the technical quality of the service
Functional service quality	Should convey a warm, customer friendly image	Should be customer oriented to convey the importance of customers

CONT.....

C. Ambient Conditions: affect customers and employees physiologically.

- ✓ These factors include such things as the temperature of the facility, noise, music, other sounds, air quality, and odours.
- ✓ Ambient conditions impact one of the five senses.
- ✓ Creating relaxed Environment

CONT....

D. Interpersonal Factors:-

- ✓ Service atmospheres are also affected by interpersonal factors such as:
- ✓ The appearance, behaviour, and mood of both employees and customers

I. **Employee appearance and behaviour:** the appearance of service personnel will often affect customers' cognitive beliefs about the quality of service they will receive

II. **Impact of Crowding:** crowding produces a negative reaction and avoidance behaviours.

Chapter six

PROMOTION

6.1 Promotion

- Promotion is form of corporate communication that uses various methods to reach a targeted audience with a certain message in order to achieve specific organizational objectives.
- A firm communicates with its middlemen, consumers, and various publics. Its middlemen communicate with their customers and various publics. Consumers engage in words-of-mouth communication with other consumers and publics. Meanwhile each group provides communication feedback to every other group. Thus communication requires mutual understanding.
- Promotion is a technique of communication related to the selling effort in order to express the merits of a product so as to enhance sales. Promotion, also called marketing communication, is defined as the element of marketing mix that assists and/or persuades a prospective customer to buy a product or to act favorably up on and that has commercial significance to the seller. It is a firm's

Cont.....

- For new products customers must be informed about the items and their attributes to make them develop favorable attitude toward them. For products that customers are aware of, the emphasis of promotion is or persuasion the conversion of product knowledge to product liking. For well-entrenched products the emphasis is on reminder promotion reinforcement of existing consumer beliefs and attitudes.
- Marketing communication includes brand names, packaging, personal sales force, trading stamps, coupons, mass media (newspapers, television, radio, direct mail, billboards, and magazines). It can be paid or non paid, company sponsored or controlled by independent media.

Cont.....

The promotional activities must be coordinated and consistent with the other elements of the marketing strategy. It should be integrated with the product, price, and distribution activities with regard to company resources and other factors. The Purpose of Promotion

- ***Build Awareness & Provide Information***:– New products and new companies are often unknown to a market, which means initial promotional efforts must focus one establishing an identity.
- ***Create Interest:*** – Moving a customer from awareness of a product to making a purchase can present a significant challenge. The focus on creating messages that convince customers that a need exists has been the hallmark of marketing for a long time with promotional appeals targeted at basic human characteristics such as emotions, fears, sex, and humor.

Cont.....

- ***Stimulate Demand;–*** The right promotion can derive customers to make a purchase. In the case of products that a customer has not previously purchased or has not purchased in a long time, the promotional efforts may be directed at getting the customer to try the product.
- ***Reinforce the Brand*** – Once a purchase in made, a marketer can use promotion to help build a strong relationship that can lead to the purchaser becoming a loyal customer. For instance, many retail stores now ask for a customer's email address so that follow-up emails containing additional product information or even an incentive to purchase other products from the retailer can be sent in order to strengthen the customer-marketer relationship.

The major advantages of promotion can be listed as follows:

- Establishing a company or product / service image, such as, prestige, discount or innovative
- Creating awareness for new products
- Keeping existing products popular
- Repositioning the images or uses of faltering products
- Locating where products can be purchased
- Justifying prices
- Providing after sales service for consumers
- Placing the company and its products or services in a favorable light relative to competitors.

6.2. Promotional mix elements

The promotion mix is the specific blend of advertising, sales promotion, public relations, personal selling, and direct-marketing tools that the company uses to persuasively communicate customer value and build customer relationships. The marketing communications mix (also called the promotion mix consists of five major modes of communication:

1, Advertising- any paid form or non-personal presentation and promotion of ideas, goods or services by an identified sponsor. It can reach masses of geographically dispersed buyers at a lower cost per exposure and it enables the seller to repeat the message many times. B/c of advertising's public nature, consumers tend to believe that advertised products are more legitimate than unadvertised. It can be used to build up a long-term image of the company or it may also be used to trigger quick sales. No matter how all

Cont.....

2, Sales promotion- is a variety of short-term incentives to encourage trial or purchase of a product or service. It refers to the use of wide assortment of tools – coupons, contests, cents-offs deals, premiums, and others- all of which have many unique qualities. They attract consumers' attention, offer strong incentives to purchase and can be used to dramatize product offers and to boost sagging sales. Its effect is short term, however, often are not as effective as advertising or personal selling in building long run brand preference.

3, *Public relations* - a variety of programs designed to promote and/or protect a company's image or its individual products (by building good relations with the company's various publics) and stakeholders.

4, *Personal selling* - face-to-face interaction with one or more prospective purchasers for the purpose of

Cont.....

5, *Direct Marketing*:-It includes using of mail, telephone, fax, e-mail, and other non personal contact tools to communicate directly with or solicit a direct response from specific customers and prospects.

6, Corporate design;-Corporate visual identity plays an important role in the way a company is perceived by customers and other stakeholders. It provides a firm with visibility expresses its values and contributes to the brand image. Corporate design includes such features as logo, uniforms, corporate colours, stationary, equipment, and building interior. It helps to ensure a consistent message which is communicated through all communications channels used by a company. Corporate design along with corporate communication and corporate behaviour make up corporate identity which is a key to promote a

Cont.....

7, Internet:-The role of e-marketing tools is growing in importance since they can complement or even supplement conventional communications channels. The Internet provides opportunities for a greater interaction with customers and personalization of message at reasonable cost. The typical forms of e-marketing communications include company's own websites and online advertising. Marketers can use their own websites for various tasks, such as providing information about company and its products, building company's image, building and maintaining relationships with customers, facilitating communications through email and chat rooms, enabling customers to place orders and make payments, and gathering information about customers, their preferences, and opinions. Internet advertising uses different techniques like banner advertising, pop-ups and click through, and search engines. Many companies place banner ads on portals or other firm's websites to

Cont.....

8,Word of mouth:-This form of communication involves recommendations from other customers and is more credible than promotional activities initiated by a company. When the perceived risk associated with the service purchase is relatively high, customers are more likely to rely on the word of mouth communication. As many services tend to have credence attributes, the perceived purchase risk is high and customers seek information from reliable sources. For this reason positive word of mouth is very important for service companies. It is possible to stimulate positive comments and recommendations from customers by employing various strategies. For example, service firms can present testimonials and references from satisfied customers, offer incentives to existing customers for persuading new customers to buy a service, and create exciting promotions to make people talk to each other about the services provided by a company. Word of mouth can also spread out in Internet and is known as viral marketing. Viral messages are created by companies to increase brand awareness and take the form of text, images, interactive games, and video clips. In

6.3.promotional mix strategies

Marketer can choose from two basic promotion strategies: push and pull strategies. A push strategy involves pushing the product through distribution channels to final consumers. The producer directs its marketing activities (primarily personal selling and trade promotions) toward channel members to induce them to carry the product and to promote it to the final consumers where as in pull strategy, producer directs its marketing activities (primarily advertising and public relation) toward the final consumer to induce them to buy the product. If the pull strategy is effective, consumers will then demand the product from channel members, who will in turn demand it form producers. Thus under pull strategy, consumers demand pulls the product through the channel.

6.4.Importance of service personnel

Service personnel plays a very important role in the success and profitability of the company, it can also be an important source of differentiation as well as a competitive advantage. It is a challenge for service companies to differentiate from other similar companies since they tend to offer the same bundle of benefits. Service employees and the way they deal with customers are harder to be duplicated comparing to other service features, therefore they can be used to distinguish one company from another. Frontline staff is also crucial for creating customer’s satisfaction and delivering service excellence.

Cont.....

- therefore service companies should employ effective human resources policies, which would result in high satisfaction of employees. Thus, in the services context, human resources management should be linked to the marketing management in order to meet customers' needs as well as company's objectives.
- Service personnel perform many tasks and are expected to achieve both operational and marketing goals. The sales people have to be fast and efficient and delight customers at the same time. Additionally, they are involved in selling, cross-selling, and up-selling and company's promotional activities. Since the first-line employees perform different functions including representing the company, creating service quality, improving productivity, and making sales, they are vital for

6.5.Human resource management

- The main objective of marketing is to achieve organizational goals by satisfying customers' needs. In service companies first line employees are usually involved in a service delivery process, which means that customer satisfaction is related to professionalism of service staff. For this reason, in market oriented companies, human resources management should be closely linked to marketing management.
- Human resources management is concerned with the decisions regarding personnel such as hiring, managing, developing, and controlling people who work in a company
- Effective human resources management enables employees to contribute to the accomplishment of firm's objectives and its overall success. In services context, human resources policies should support marketing efforts aimed at satisfying customers. Therefore, it is important that information about a customer's profile, as

all human resources practices are interrelated and influence service excellence and productivity.

***Recruitment*:-** The first important task for human resources managers is to attract the right people for the right job within a company. Hiring personnel involves competing for the applications from the best candidates and selecting those who seem to be the best for the specific positions.

Competing in the labour market for prospective employees requires having an attractive value proposition, which includes such elements as having a good image, delivering high quality products, and offering a competitive compensation package. The prestige and market success of an employer are key factors for attracting career-seekers, however, companies providing best perks to their employees are usually highly ranked among the best companies to work for.

A good recruitment procedure should result in the appointment of candidates who are best qualified and suitable for the job.

- ***Training:-***Employees should possess specific knowledge and skills to perform their job effectively. For this reason, service companies need to develop training strategy related to their objectives and needs of employees. Typically, training of service staff involves the organizational strategy, interpersonal and technical skills, and product knowledge.
- ***The organizational strategy*** is necessary to be learned by new employees; however, some companies provide training in this area to their staff to constantly promote firm's core values. The knowledge about company's history, culture, philosophy, and objectives is crucial to the development of mutual respect, team spirit

Cont…….

- ***Interpersonal and technical skills:*** **-**are essential to service delivery. Developing interpersonal skills, such as appropriate body language, attentive listening, and making eye contact, facilitates communication with customers and improves customer service. Technical skills on the other hand include knowledge of specific field, rules and regulations, procedures, and the ability to use equipment and operate machines necessary for service performance.
- ***Product knowledge*** is a crucial component of service quality. Employees should possess an extensive knowledge about a company's market offering in order to deliver information, explain product features and answer customers' questions. Additionally, the service personnel should be able to

Cont…….

- ***Managing:*** **-**Managing employees involves decisions about the degree of the empowerment of the frontline employees. Service companies can adopt one of two main approaches to managing people in a company: the production-line approach or empowerment.
- ***The production-line approach*** is based on a control model of organization design and management in which roles in a company are clearly defined and decision-making process is centralized. This model assumes that service operations might be more efficient when tasks are simplified and employees perform them following the specified procedures. The employees are not empowered and cannot make their own decisions. Managers can only take action and solve customers' problems. Additionally, it is recommended to replace people by equipment and systems, since they are believed to be more reliable and

Cont.....

- ***Empowerment*** is based on the involvement model in which employees play crucial role in satisfying customers' needs. First-line staff is encouraged and rewarded for showing initiative and solving customers' problems. Employees are asked to make suggestions for service improvements and flexibly interact with customers. Empowered employees respond quicker to customer needs, feel better about their jobs, become more involved in work, perform their tasks with more enthusiasm, and come up with ideas about how to best serve customers. Empowering service personnel brings many benefits; however, it also produces costs including a greater investment in selection and training, higher labor costs, and the threat of inconsistent service delivery and making bad

Cont.....

Motivating:-Whereas effective hiring, training, and empowerment leads to the possession of qualified and skilled service personnel, motivating and rewarding are crucial to retaining them. Motivation of employees falls into two categories: maintainers and motivators.

- ***Maintainers*** include such factors as salary, fringe benefits, working conditions, job security, organizational policies, and supervision and should be kept at a satisfactory level. A number of methods might be used to reward financially employees. Typically, service personnel gets a regular salary or wages based on their work performance. Additionally, they can receive sales commission or bonuses for good work and achievement of specified targets.

Cont…….

- ***Motivators*** include such factors as job content and recognition, job position and responsibility, career development, and goal accomplishment. People are satisfied by knowing that they are doing a good job. They feel good and motivated when they get a positive feedback from their bosses, colleagues, and customers. Another tool used to motivate service staff is a clearly defined career pathway. It shows how employees' working life might develop within a particular company providing they perform all duties effectively and meet performance standards and expectations. Precisely defined duties and responsibilities related to the specific position as well as difficult but attainable goals might be also good motivators.
- ***Monitoring and controlling*****: -** Since service personnel plays usually an important role in service delivery, the control of the workforce becomes crucial for controlling

6.6.Role of physical environment

- The physical environment affects customers' experience during the service encounter enhancing or undermining customer satisfaction. In some services such as restaurants, cafes, and hotels service environment might even be a key to customer satisfaction, making great impression and leaving long-lasting memories. Thus, physical evidence is an important component of a service company marketing-mix strategy and overall value proposition.
- Due to the intangibility of services, customers rely on physical evidence when assessing the expected quality level, so careful design of all tangible elements can increase perceived value of the market offering.

Cont.....

Physical evidence can fall into three main categories: **facility exterior, facility interior and other tangibles**

The facility exterior includes the surrounding environment, parking facilities, the firm's entrance, and signage. Then deciding about a location of the service company, especially with regard to high-contact services, it is important to consider the accessibility, safety, visibility and compatibility of the service site and market offering with the surrounding environment.

The facility interior is composed of such elements as interior design, signage, equipment and other devices necessary for service performance which are complemented by ambient conditions like music, scents, temperature, and colours. Some of

Cont.....

Other tangible elements include stationery, business cards, billing statements, personnel uniforms, and promotional material and are a part of visual identity of a company. Since customers perceive all service elements holistically, it is important to ensure that they are carefully designed to create a consistent image and a unique brand experience.

6.7.Companys physical evidence

The company's physical evidence may serve different purposes. It differentiates the firm from its competitors, communicates its image through tangible clues, facilitate the performance of the service, and socialize customers and employees94. The services cape can be used as a part of the company's value proposition enhancing customer experience. Nicely designed interiors along with equipment of good quality and well-dressed personnel make good impression on customers. Such service environments, conversely to poorly designed interiors, are more likely to attract customers and offered services are usually perceived as professional. However, service companies which offer low-price services can emphasize the functional aspect of their outlets

Cont……

. For example, fast-food restaurants are designed to ensure convenience and fast service delivery. Therefore, all restaurants are visible, offer parking space, are equipped in all necessary facilities, and their personnel is dressed in practical uniforms.

Another use of the physical evidence is to facilitate the socialization of customers and employees. Uniforms, for example, help identify the firm’s personnel while name tags are useful in creating friendly atmosphere and familiarize customers with employees.

6.8 Consumers responses to service environment

Physical evidence plays an important role in marketing programs of many services companies because it can greatly influence people's emotions and behaviours. Thus, knowledge about how customers behave in different service settings is essential for making decisions about the development of services cape. Since people respond to specific environments, marketers should be aware of factors which have impact on customers' behaviours and design service environment that stimulates positive feelings and reactions.

Dimensions of the Service Environment

- Service environments are very complex and are made up of many elements. The main dimensions of the services capes include ambient conditions, space and functionality, and signs, symbols, and

Cont……..

- **Ambient conditions:-**These are environmental conditions that pertain to individuals' five senses. They have psychological and physical impact on how people feel and behave. For this reason, all elements of ambient conditions should be designed carefully to stimulate desired responses. Thus, marketers can utilize the senses of sight, sound, scent, touch, and taste to create sensory appeal that influences customers' and employees' well-being and behaviours.
- Ambient conditions include size and shape perceptions, colors, temperature, air quality, scent, music, noise, smell, lightning, and others.

Cont.....

- **Sight** appeals refer to visual aspects of service environment that individuals perceive. The primary visual stimuli appealing to customers include size, shape, and colors98. The size of a company and its facilities is often associated with its power, stability, and security. Many customers believe that large firms are more reliable and competent than the smaller ones. However, other customers may perceive large firms as impersonal and are more likely to choose smaller companies with more intimate and friendly atmosphere. Shape perceptions are related to the design and placement of furniture and other parts of equipment which helps to create harmony within the service environment. Color of the firm's physical evidence has a strong impact on how people feel and often

Cont.....

- **Sound** is a very important element of ambient conditions and is associated with music, noise, announcements, and other sounds noticed by customers. Background music helps to create certain mood and atmosphere within the service outlet, while announcements are used to deliver messages and inform about market offerings and current promotions. However, some sounds like noise are undesirable and might considerably distract customers' attention; therefore marketers should eliminate them or prevent their occurrence. Music is an important mood-setter, yet research studies have shown that besides creating positive mood, music can additionally influence people buying behavior.

Cont.....

- **Scent** appeals are associated with certain smells that pervade an environment. The presence of scent influences people's mood and atmosphere of the service outlet, so marketers should pay attention to ensure pleasurable experience for customers in this regard. Some scents like odours are undesirable, so good ventilation systems should be installed and smell avoidance tactics should be employed. Besides smells that have a negative impact on customers, some scents evoke very positive feelings and stimulate certain reactions. Aromatherapy uses aromatic oils to alter people's mind, mood, and health, which might be also used to influence customers within a service outlet.

Cont.....

- **Touch** stimuli refer to the ability of touching physical evidence of a service. Customers are more likely to buy products when they have a possibility to handle them. As touch appeals might influence buying decision as well as service experience, it is important to deliver samples and promotional material to customers and use other elements of physical evidence in the service outlet to improve service performance. Marketers should pay attention on those elements that customers usually touch like furniture, carpets, and other facilities, and ensure that they evoke positive reactions. It is also possible to enhance service experience by involving customers in a service process and encouraging them to touch physical components of a service.

Cont.....

Space and functionality: In addition to ambient conditions which stimulate customers' senses and contribute to service experience, service process serves specific purposes. For this reason marketers should also concentrate on functional aspect of the service environment and ensure that service is delivered properly. Thus, service outlet should meet requirements with regard to space and functionality. Spatial layout refers to the floor plan including location of toilets, cloakroom and waiting room, size and space of furnishing, equipment and devices necessary for service delivery, handicapped facilities, and the ways in which they are arranged, whereas functionality refers to the ability of those items to facilitate service performance and improve service experience.

Cont.....

***Signs, symbols and artefacts*:-**Service environments should be adjusted to customers' needs and enable them to go smoothly through service process. Thus, services cape designers should ensure that customers get precise and visible information on where service facilities are located and how to proceed to get a desired service. Signs, symbols, and artifacts play a very important role as a communication tool during service delivery.

6.9.Considerations of service pricing

When Service Company develops a new product, it must consider many factors including setting a right price for its market offering. Price is very important component of the marketing mix strategy, because it brings revenue for a company while other elements represent costs. Price is also a very flexible element and can be used as an important tactical tool. Unlike other marketing mix elements, such as product features, distribution network, and advertising, price can be changed quickly and adopted to market conditions. Given the intangible nature of services, pricing decisions are particularly important. Service customers expect certain level of quality basing mostly on price and are more likely to use price as a cue to quality.

Cont.....

- Setting price policy involves several steps, such as selecting the pricing objective, determining demand, estimating costs, analyzing competitors' prices and strategies, selecting pricing method and setting the final price.
- Setting the right price is a difficult task since many factors should be considered at the same time. ***Customers' assessment of service features*** resulting in their perception of value sets the ***ceiling*** for price. The ***costs set a minimum price*** or ***price floor*** for a serving offering. Between these two extremes, a service company has to consider other internal and external factors, such as marketing strategy and objectives, the nature of the market and demand, and competitors' strategies and prices. Price decisions should be based on

Pricing Objectives

A firm may have various objectives and pricing contributions. And hence, the clearer a firm is about its objectives, the easier it is to set price. A company can pursue its various objectives through its pricing: survival, current profit maximization, market share leadership and product quality leadership.

Survival;–Companies pursue survival as their major objective if they are troubled/plagued by overcapacity, intense competition or changing customer wants. To keep the plant going, a company will set a low price, hoping to increase demand in this case, profits are less important than survival. However, survival is only a short-term objective, in the long run, the firm must learn how to add value or face extinction.

Cont……..

- ***Current profit maximization***
- Many companies use current profit maximization as their pricing goal. They estimate what demand and costs will be at different prices and choose the price that will produce the maximum current profit, cash flow, or return on investment.
- ***Market share leadership*** – companies may want to obtain market share leadership. They believe that the company with the largest market share will enjoy the lowest costs and highest long run profit to become the market share leader; these firms set prices as low as possible.
- ***Product quality leadership***
- A company might decide that it wants to achieve product quality leadership. This normally calls for charging high price to cover such quality and high

Factors Affecting Pricing Decision

A company's pricing decisions are affected by both internal company factors and external environmental factors.

Internal factors affecting pricing decisions

- Firms have to consider the internal factors in setting their pricing policy. Factors include the company's marketing objectives, marketing mix strategy, costs and organizational considerations.

1. Company Objectives:

before setting a price, the company must decide on its strategy for the product. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including pricing will be fairly strait forward. For e.g. if the company decided to target high income group, this suggests that the price will be higher or if it positioned its product as economical this requires low price. In addition, the company's main objective in the market may have implication on its price. For example company may set survival as its major objective if it is troubled by too much capacity, heavy competition or changing consumer needs. To keep the plant operating in such circumstance, a company may lower its price, hoping to increase demand. (Survival should be only a short-term

Cont.....

For example company may set survival as its major objective if it is troubled by too much capacity, heavy competition or changing consumer needs. To keep the plant operating in such circumstance, a company may lower its price, hoping to increase demand. (Survival should be only a short-term objective and in the long run a firm should learn how to add value to its product). Otherwise, a company may have current profit maximization as major goal. In doing so a company will estimate its demand and cost and choose the price level that will produce the maximum current profit.

Apart from this, company may pursue market share leadership objective and hence may charge low price to attract more customers. Or else a company may want to achieve product quality leadership,

2. Marketing mix strategy:

Price is only one of marketing mix elements that a company uses to achieve its objectives. Hence, price decision must be coordinated with other marketing mix decisions (product design, distribution and promotion) to form a consistent and effective marketing program. Decisions made for other marketing mix variable may affect pricing. For e.g. a firm using many resellers who are expected to support and promote their products may have to build larger reseller margins into their prices. On the other hand the decision on high performance quality means that the seller must charge higher price to cover higher costs. Or else a firm looking for attracting customers through promotional campaign may find cutting price as a means to attract customers.

3. Costs

costs set the floor for setting price that a company can charge for its product. Most often under normal circumstances, companies need to charge price that both covers all its costs for producing, distributing and selling the product and delivers fair rate of return for its effort and risk. Generally, a company's cost has paramount implication upon the price the company needs to charge for e.g. a company interested to charge lower prices cannot do so unless it has lower cost of production.

4. Organizational consideration:

Responsibility for setting prices is different from organization to organization for e.g. in small companies the top management may be involved in setting prices for products while in the case of large companies this may be the responsibility area of

External factors affecting pricing

1. ***The market and demand:*** While cost determines the lower limit of prices, the market and demand set the upper limit. The sellers' freedom of setting price varies according to the type of market for e.g. in a competitive market situation and monopolistic market situation, a company's freedom of setting price will not be the same. In the later case, the presence of other producers means that customers will have other alternatives to satisfy their need, this eventually makes companies appeal customers through their price and other means. In the first case, the absence of competitors gives the company greater freedom to the company to set its price.

. As we all know according to Economists, demand and price are inversely related, that is the higher the price is the lower the demand will be and vice versa. Hence, in setting its price a company should

2. Competitor's costs, prices and offers:

A consumer who is considering buying a given company's product will evaluate the prices and values of company against the prices and values of other companies producing that product. In addition, the company's pricing strategy may affect the nature of the competition it faces for e.g. a company pursuing high price, high margin strategy may change the nature of the competition as compared to a company whose strategy is low price, low margin. To this end, a company needs to benchmark its costs against its competitor's costs to learn whether it is operating at a cost advantage or not. Likewise, it also needs to learn the price and quality of its competitors so that it can decide on its offers including price in relatively attractive (comparable) way than competitors.

3. Other external factors:

in setting its price, obviously company should consider its economic situation such as inflation, deflation, booming etc as such factors affect both the price of the company and the perception of consumers about the company's product value and price. In addition, a company should consider the effect of its price on other parties in its environment such as resellers, government, etc. Apart from all these, social concerns may have to be taken into consideration.

General Approaches to Pricing

Companies set prices by selecting a general pricing approach that includes one or more of these three considerations. The price method will then lead to a specific price. We will examine the following approaches:

1, Cost –plus pricing: is the simplest pricing method that adds a standard markup to cost of the product in order to determine the price of a product. This method does not take into consideration the demand and competitors price but it entirely depends on the cost of the company and the desired profit the company wishes to get thereof. No matter how this weakness, it is a popular one because sellers in most cases are certain about costs than about demand and it appears to be somehow fair for both buyer and seller.

Cont……

2, Break-even or target profit pricing: when a firm tries to set its price at a level that equates its cost to sale or makes the target profit it is seeking. In this method the company will determine what price will make it break even or desired profit at a given level of sales. In this regard it takes into consideration only the cost aspect and the desired profit, it does not take into consideration the price-demand relationship. Thus, in using this method a company should also consider the effect of the price it is setting on demand.

3, Value based pricing*:* is a method that the price of a product is decided based on the perception of consumers rather than sellers cost as the key factor. In this method, price is to be determined in such a way that the combination of the quality of the

Cont……

4, Competition based pricing: is a method that considers the competition as the most important factor to determine the price of a company. Hence, the company's price is to be determined in such a way that it is capable enough to attract consumers than competitors' products (price that meet the competition). In perusing this approach, most often companies follow the market leader's price i.e. it may charge a little bit greater or lesser than the leader's price or the same as the leader's price and will change their price when the leader changes its price or when the prevailing price in the market changes.

Pricing Strategies

I, Market Skimming Pricing: Is setting a high price for a new product to skim maximum revenue layer by layer from the segments (market). Market skimming makes sense only under certain conditions.

- The products quality and image must support its higher price and enough buyers must want the product at that price.
- The costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more.
- Competitors should not be able to enter the market easily and undercut the high price.

Cont.....

II, Market Penetration-Pricing: Setting a low price for a new product in order to penetrate the market quickly and deeply to attract large number of buyers quickly and win a large market share. The high sales volume results in falling costs, allowing the company to cut its price even further. It is advisable if demand is highly elastic.

- The market must be highly price sensitive so that a low price produces more market growth.
- Production and distribution cost must fall as sales volume increase
- The low price must help out competition and the penetration prices must maintain its low price position otherwise the price advantage maybe only temporary.

Service Pricing Strategies

- After considering all factors that might influence pricing decisions, it is important to decide which pricing strategy to choose so that organizational objectives can be met. There are three alternative pricing strategies which might be used by service companies to communicate value to customers: satisfaction-based pricing, relationship pricing, and efficiency pricing.
- **Satisfaction-based pricing:-**This pricing strategy provides value by recognizing and reducing customers' perceptions of uncertainty related to the intangible nature of services. Since certain level of risk is often associated with service purchase, different solutions might be implemented in order to increase certainty and build confidence and trust, including service guarantees, benefit-driven pricing, and flat-rate pricing.

Cont…….

- **Service guarantees** are a popular way of appealing to customers that value certainty and quality and who accept higher prices to get those benefits. Service guarantees can be used by companies that offer services perceived as high-risk, that are focused on delivering high quality services or that need to differentiate from their competitors when entering the market.
- **Benefit-driven pricing** is based on pricing the benefits that customers receive. Thus, it is important to identify what customers' value in a service, and then, when charging customers for a service, communicate an association between the price and the attributes of service valuable for them. As price is related to the benefits, customers usually feel more satisfied and less uncertain. A hairdresser, for example, can charge for a service

Cont.....

- **Flat-rate pricing** reduces perceived risk associated with a service purchase by agreeing on a fixed price before the transaction occurs. In effect, the risk of cost changes, which cannot be controlled by the company, falls on the service provider. Flat-rate pricing is effective when the price is competitive, the company controls its costs, and there are opportunities to develop relationships with customers. Consultants, attorneys, and other professionals can offer fixed prices for their services especially with regard to business clients.
- **Relationship pricing:-**The concept of relationship pricing is based on using price as an effective tool in building, maintaining, and developing relationships with customers. When developing pricing strategy which is focused on encouraging customers to expand their dealings with a service

Cont.....

- **Long-term contracts** offer price and non-price incentives to strengthen the existing relationships with customers and to develop new ones. Customers benefit from dealing with the same service provider over years. They pay lower prices and get more privileges. Long-term contracts facilitate communication and information exchange, which has a positive effect on service quality and performance. For a service company, the steady flow of revenue ensures more financial stability. Additionally, long-term commitments reduce switching between service providers. Fitness, golf, and medical memberships are examples of long-term contracts.
- **Price bundling:-**aims at enhancing relationships with customers by offering two or more services in a single package. This practice is very common

Cont.....

Efficiency pricing:-The primary objective of efficiency pricing is to deliver the most cost effective service to customers. With this strategy, a service company is focused on attracting economically minded customers. Understanding, managing and reducing costs are the fundamentals of efficiency pricing. One possibility to reduce costs is to introduce innovations and apply new methods and business practices aimed at efficiency increase. Cost reduction efforts can be also focused on eliminating these activities that do not add enough value for customers. Therefore, the understanding of relationship between value perceived by customers and the costs incurred to receive this value is crucial for this strategy.

Thank u!!