

# MBA (Third Semester)

## SERVICES MANAGEMENT

Department of Studies and Research in Management

Course: 14

Block - 1



# MBA (Third Semester)

## SERVICES MANAGEMENT

Department of Studies and Research in Management

Course: 14

Block - 2



# MBA (Third Semester)

## SERVICES MANAGEMENT

Department of Studies and Research in Management

Course: 14

Block - 3



# MBA (Third Semester)

## SERVICES MANAGEMENT

Department of Studies and Research in Management

Course: 14 Block - 4



# MBA (Third Semester)

## SERVICES MANAGEMENT

Department of Studies and Research in Management

Course: 14 Block - 5



### Mukthagangothri, Mysore-570006

#### DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

#### M.B.A III SEMESTER

### **COURSE - 14**

### **SERVICES MANAGEMENT**

#### **BLOCK**

### 1

#### INTRODUCTION TO SERVICES MANAGEMENT

UNIT – 1	
Services	01-23
UNIT-2	
Service Sector	24-41
UNIT-3	
Service Organization	42-60
UNIT - 4	
Services Management	61-78

Prof. D. Shivalingaiah	Prof. T.D.Devegowda			
Vice-Chancellor & Chairperson	Dean (Academic)(I/C)& Convenor			
Karanataka State Open University	Karnataka State Open University			
Muktagangotri, Mysore – 570 006	Muktagangotri, Mysore – 570 006			
Editors	Co- Editor and Subject Co-Ordinator			
Dr. C. Mahadevamurthy	Dr H. Rajeshwari			
Associate Professor and Chairman	<b>Assistant Professor</b>			
Dos & Research in Management,	Dos & Research in Management,			
Karnataka State Open University,	Karnataka State Open University,			
Mukthagangothri, Mysore – 570 006	Mukthagangothri, Mysore – 570 006			
Course Writers				
Dr H. Rajeshwari	MODULE - 1 (Units 1 to 4)			
Department of Management				
KSOU, Mysore				

#### **Publisher**

#### Registrar

Karnataka State Open University, Mukthagangothri, Mysore - 6

#### Developed by Academic Section, KSOU, Mysore- 6, 2016

All rights reserved. No part of this work may be reproduced in any form, by mimeograph or any other means, without permission in writing from the Karnataka State Open University.

Further information may obtained from the University's office at Muktagangotri, Mysore - 6

Printed and Published on behalf of Karnataka State Open University, Muktagangotri, Mysore - 6

### BLOCK - I: INTRODUCTION TO SERVICES MANAGEMENT

Service is an intangible offerings to the market. As any country develops, service assumes more prominent position. Institutionlize services fetches more profit and provide better professional services. Management of service is highly challenging.

Effective service management is a complex undertaking which includes many different strategies, skills and tasks. Service managers plan for creating the best services and operational excellence to maximize satisfaction, loyalty and retention. Recognising and closing gaps offers high quality service to the consumer and helps them to achieve their goal whilst maximising market position, market share and financial results through customer satisfaction. It also helps managers to identify areas of weakness and make improvements to a company's service delivery. Hence proper understanding of the concept of services management is high necessary for the management students. This allows you to take information gleaned from gap analysis to develop or refine products that are both compelling to customers and distinct from competitors.

In this module, you will study 4 units

UNIT - 1: SERVICES

UNIT - 2: SERVICE SECTOR

UNIT – 3 : SERVICE EXPECTIONS AND SERVICE STRATEGY

UNIT - 4: SERVICES MANAGEMENT



### **UNIT - 1: SERVICES**

#### **Structure:**

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Meaning and Definitions
- 1.3 Nature of Service
- 1.4 Scope of Services
- 1.5 Classification of Services
- 1.6 Differences between goods and services
- 1.7 Servitization
- 1.8 Notes
- 1.9 Summary
- 1.10 Key Words
- 1.11 Self Assessment Questions
- 1.12 References

#### 1.0 OBJECTIVES

After studying this unit, you should be able to:

- -> Define Services;
- -> Explain the nature of service;
- -> Identify the scope of service;
- -> Classify the services and
- -> Appreciate servitization.

#### 1.1 INTRODUCTION

Dear Student, you might be aware of the fact that services have become an integral part of our daily life. News paper may a commodity, but ensuring that every morning the newspaper should be at your door step is service. In this unit, let us acquire knowledge about services, the meaning and scope, the various types of services and how can we classify them. Let us also learn about the emerging concept of servitization in this unit.

During the past few decades services has increasingly assumed an important role in our economy, Raising level of services always shows increasing prosperity of a country. You might have observed that availability of services depends upon the economy, For example, the services available in a city are not available in a village. In the same way, services available in a metro city are not available in a town. This raising level of services is not only witnessed in India, but also over the whole globe. The technology is also contributing its share to design and provide more and more types of services. The way we live and work has been completely transformed over past two decades. Earlier services were considered as pious but now it has become professional. However still we use the terms such as service organization, service minded people to show the sanctity of service

The service industry is emerging as the most dominant sector in every economy of world today. It would continue to dominate economies world over. It is the vital component of all economies. From agricultural and industrial economy, the emphasis is now shifted to the service economy.

#### 1.2 MEANING AND DEFINITIONS

In common parlance, the term service encompass activities like auto repairing, hair cutting, services of dentist, providing education, providing travel assistance such as auto, taxi, legal consultant and so on. Examples of services can also include the transfer of goods, such as the postal service delivering mail, and the use of expertise or experience, such as a doctor attending a patient.

A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production.

The services can be highly professional such as legal service, management service, and providing education and medical services which requires special skills. The services can be cost effective and available on hire basis such as taxi, auto, bus, flight and so on. Few services would save time for you such as door delivery, pick up and drop. With the help of technology on-line services are available today.

Service is a type of economic activity that is intangible, is not stored and does not result in ownership. A service is consumed at the point of sale. Services are one of the two key components of economics, the other being goods.

The Dictionary meaning of service is service is an organized system of labour and material aids used to supply the needs of the public. Service is an activity where the buyer does not get the permanent ownership of the thing but for time being. The benefits of such a service, if priced, are held to be self-evident in the buyer's willingness to pay for it. Public services are those that society (nation, state, fiscal union, regional) as a whole pays for, through taxes and other means.

By composing and orchestrating the appropriate level of resources, skill, ingenuity, and experience for effecting specific benefits for service consumers, service providers participate in an economy without the restrictions of carrying inventory (stock) or the need to concern themselves with bulky raw materials. On the other hand, their investment in expertise does require consistent service marketing and upgrading in the face of competition.

The generic clear-cut, complete, concise and consistent definition of the service term reads as follows:

#### A service is a set of one time consumable and perishable benefits

- Ø delivered from the accountable service provider, mostly in close coactions with his internal and external service suppliers,
- Ø effectuated by distinct functions of technical systems and by distinct activities of individuals, respectively,
- Ø commissioned according to the needs of his service consumers from the accountable service provider,
- Ø rendered individually to an authorized service consumer
- Ø and, finally, consumed and utilized by the triggering service consumer for executing his/her upcoming business activity or private activity.

One common method of defining a service is to distinguish between the 'core' and 'peripheral' elements of that service. The 'core' service offering is the 'necessary outputs of an organization which are intended to provide the intangible benefits customers are looking for'. Peripheral services are those which are either 'indispensable for the execution of the core service or available only to improve the overall quality of the service bundle.

Lehtnen defined services as an activity or series of activities which takes place in interactions with a contact person or a physical machine and which provides customer satisfaction.

Gummesson highlights services as something which can bought and sold but you cannot drop on your foot.

According to Gronross, A service is an activity or series of activities of more or less intangible nature that normally, not necessarily takes place in interaction between the customer and services employees and/or physical resources or goods and/or systems of the service provider, which are provided as solution to customer problem.

According to Phillips Kotler, Service is any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to any physical product.

Today services possess a new dimension called online services. A little surfing on the web will show you various virtual service providers and thier services

The above definition gives you an idea of service that a service is

An activity or activities

- Ø It is intangible
- Ø It is provided by a human being or a machine
- Ø It aims at customer satisfaction

#### Services as a system

Services are often viewed as a system. A system essentially contains an input, an output and a process. Some of the most important components of the service system are as follows:

- 1. The Service Operations System
- 2. The Service Delivery System
- 3. The Service Marketing System.

The model draws the distinction between visible elements and invisible components of the system. Visible elements are perceived by customer. When receiving a haircut, for example, customers come into contact with receptionist and stylists, the physical dimensions of the salon itself, heating, seating etc., and other customers within the salon.

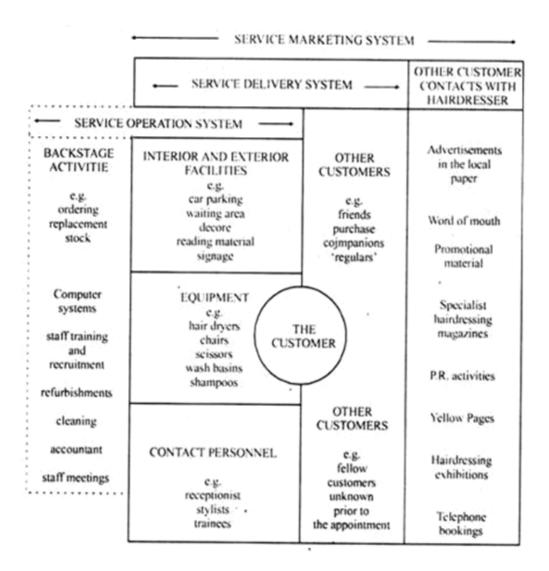
The latter would include all the other organizational activities taking place 'backstage', for instance, staff training and administration. According to the model, in order to receive the benefits from the service experience, the customer must be part of the system thus explicitly acknowledging the inseparability characteristic of services.

The components of the service system are:

- (1) The service operations system,
- (2) The service delivery system, and
- (3) The service marketing system.

The model illustrates how the three functional areas – marketing, operations and human resources of the service business – are integrated together.

Figure identifies the various components of the services marketing system as related to a hairdressing service.



The distinction between front stage and backstage elements of the system is maintained, with backstage activities takes place out of sight of the consumer.

#### 1. The Service Operations System:

The service operations system comprises backstage activities, such as staff training, stock replenishment, etc., as well as the front stage aspects of the operation experienced directly by the customer, such as how they are treated by employees as soon as they enter the parlour, or how quickly they are moved around from the washbasins to the cutting chair (if they are receiving a cut and blow for example).

Although there is generally no need for the customer to see most aspects of service operations (therefore they are kept backstage), some service providers deliberately expose customers to backstage activities in an attempt to influence positively their perceptions of the quality of the service provided.

Restaurants frequently invite customers to visit kitchens where the food is being prepared either before or after they have eaten. This is designed to reinforce an image of fresh food prepared in a hygienic cooking environment which may influence their perception of the overall quality of their experience.

#### 2. The Service Delivery System:

The service delivery system encompasses not only the visible elements of the service operating system, employees and the physical facilities, but also includes exposure to other customers. In many- service businesses, positive on-site interaction can have a significant impact on customers' overall perception of their experience. In the hairdressing parlour, customers may find themselves waiting for a period of time for their particular stylist in a communal reception area.

Conversations frequently take place at this point between customers who have never met prior to entering the delivery system. Although the discussions may consist largely of banter and pleasantries not directly connected with the hairdressing service (e.g. conversations about the weather, traffic in town, etc.), the exchanges can for many customers improve their overall experience by making the time pass more quickly.

Occasionally, when conversations turn to the service itself, the provider can benefit positively from the exchange. For instance, one customer who has visited the parlour several times may comment on the skill and expertise of a certain stylist, and the generally professional attitude of all employees. To new customers attending for the first time the comments might have a positive influence on their opinion of the parlour.

#### 3. The Service Marketing System:

The service marketing system incorporates elements of the service experience which may contribute to the customer's overall view of the organisation but are not specifically part of the delivery system. Clearly, many of these are the elements which the organisation may not be able to control, such as conversations customers may have about the parlour with friends or relatives at home, or exposure to the service they may get from reading a hairdressing editorial in the local paper.

Lovelock feels that by conceptualizing the service experience as three overlapping systems, services managers are forced to consider their business from a customer's rather than a purely operations perspective. It highlights the importance of managing all elements of the business that are visible to customers.

#### 1.3 NATURE OF SERVICE

Services possess few unique characters. Both goods and services are aimed at customer satisfaction and they are sold for a price. However services differ from goods. What differentiates services from goods is their characteristics. Let us know the peculiar characteristics of services which differentiate goods from it. Services can be paraphrased in terms of their key characteristics, sometimes called the "Five I's of Services".

#### 1. Intangibility

Services are intangible and insubstantial: they cannot be touched, gripped, handled, looked at, smelled, and tasted. Thus, there is neither potential nor need for transport, storage or stocking of services. Furthermore, a service can be (re)sold or owned by somebody, but it cannot be turned over from the service provider to the service consumer. Solely, the service delivery can be commissioned to a service provider who must generate and render the service at the distinct request of an authorized service consumer.

#### 2. Inventory (Perish ability)

Services have little or no tangible components and therefore cannot be stored for a future use. Services are produced and consumed during the same period of time.

Services are perishable in two regards

- 1. The service relevant resources, processes and systems are assigned for service delivery during a definite period in time. If the designated or scheduled service consumer does not request and consume the service during this period, the service cannot be performed for him. From the perspective of the service provider, this is a lost business opportunity as he cannot charge any service delivery; potentially, he can assign the resources, processes and systems to another service consumer who requests a service. Examples: The hairdresser serves another client when the scheduled starting time or time slot is over. An empty seat on a plane never can be utilized and charged after departure.
- 2. When the service has been completely rendered to the requesting service consumer, this particular service irreversibly vanishes as it has been consumed by the service consumer. Example: the passenger

has been transported to the destination and cannot be transported again to this location at this point in time.

#### 3. Inseparability

The service provider is indispensable for service delivery as he must promptly generate and render the service to the requesting service consumer. In many cases the service delivery is executed automatically but the service provider must preparatorily assign resources and systems and actively keep up appropriate service delivery readiness and capabilities. Additionally, the service consumer is inseparable from service delivery because he is involved in it from requesting it up to consuming the rendered benefits. Examples: The service consumer must sit in the hairdresser's shop & chair or in the plane & seat; correspondingly, the hairdresser or the pilot must be in the same shop or plane, respectively, for delivering the service.

#### 4. Inconsistency (Variability)

Each service is unique. It is one-time generated, rendered and consumed and can never be exactly repeated as the point in time, location, circumstances, conditions, current configurations, the mood and temperment of service provider and/or assigned resources are different for the next delivery, even if the same service consumer requests the same service. Many services are regarded as heterogeneous or lacking homogeneity and are typically modified for each service consumer or each new situation (consumerised).

Example: The taxi service which transports the service consumer from his home to the opera is different from the taxi service which transports the same service consumer from the opera to his home – another point in time, the other direction, maybe another route, probably another taxi driver and cab.

#### 5. Involvement

One of the most important characteristics of services is the participation of the customer in the service delivery process. A customer has the opportunity to get the services modified according to specific requirement.

#### The other charecteristics being,

#### **6. Fluctuating Demand:**

Service demand has high degree of fluctuations. The changes in demand can be seasonal or by weeks, days or even hours. Most of the services have peak demand in peak hours, normal demand and low demand on off-period time.

#### 7. Service quality is not statistically measurable:

It is defined in form of reliability, responsiveness, empathy and assurance all of which are in control of employee's direct interaction with customers. For service, customers satisfaction and delight are very important. Employees directly interacting with customers are to be very special and important, people includeing those who work in internal marketing, external marketing and interactive marketing.

#### 8. Pricing of Services:

Pricing decision about services are influenced by perishability, fluctuation in demand and inseparability. Quality of a service cannot be carefully standardised. Pricing of services is dependent on demand and competition where variable pricing may be used.

Each of these characteristics is retractable per se and their inevitable coincidence complicates the consistent service conception and makes service delivery a challenge in each and every case. Proper service marketing requires creative visualization to effectively evoke a concrete image in the service consumer's mind. From the service consumer's point of view, these characteristics make it difficult, or even impossible, to evaluate or compare services prior to experiencing the service delivery.

Mass generation and delivery of services is very difficult. This can be seen as a problem of inconsistent service quality. Both inputs and outputs to the processes involved providing services are highly variable, as are the relationships between these processes, making it difficult to maintain consistent service quality. For many services there is labor intensity as services usually involve considerable human activity, rather than a precisely determined process; exceptions include utilities.

The human factor is often the key success factor in service economies. It is difficult to achieve economies of scale or gain dominant market share without it. There are demand fluctuations and it can be difficult to forecast demand. Demand can vary by season, time of day, business cycle, etc. There is consumer involvement as most service provision requires a high degree of interaction between service consumer and service provider.

There is a customer-based relationship based on creating long-term business relationships. Accountants, attorneys, and financial advisers maintain long-term relationships with their clients for decades. These repeat consumers refer friends and family, helping to create a client-based relationship.

#### 1.4 SCOPE OF SERVICES

The scope of services is ever increasing. As said earlier the scope of service was limited to free of cost works. The service was considered with sanctity. Now that it has grown as profession. The increasing share of services in our economy shows the upliftment of the economic status of the country. In the preliminary stages, services was limed to technical and expert dimensions. As the economy is growing, services today encompass unskilled activities also. The scope of services can be understood from the below classification

- a. Production services: It includes repair, maintenance, transportation and so on
- b. Business services: This includes banking, insurance, advertising, accountancy, finance, market research, credit cards and so on.
- c. Consumer services: This includes hospitals, education,.
- d. Public administration and defiance services: This involves the services provided by the government to its citizens and employees

Any human intervention that aims at satisfying the customer can be termed as services. The services are provided at a price. The services may be purely professional such as legal consultancy or software development. On the other hand, it could be as simple as paying your bills. The technology has made the life of man easy both in terms of goods and services.

The scope of service is only imaginative. For example bigbasket.com helps you to purchase grocery and vegetables. You can order online and get door delivery of items. Outsourcing has emerged as a big business today. The companies can out source many of its operations to some other companies. These operations may include employee recruitment and selection, training and development, purchase of raw materials and spares, providing information to the customers on the behalf of company, taking care of legal issues, advertising services, technical consultancy services etc.

#### 1.5 CLASSIFICATION OF SERVICES

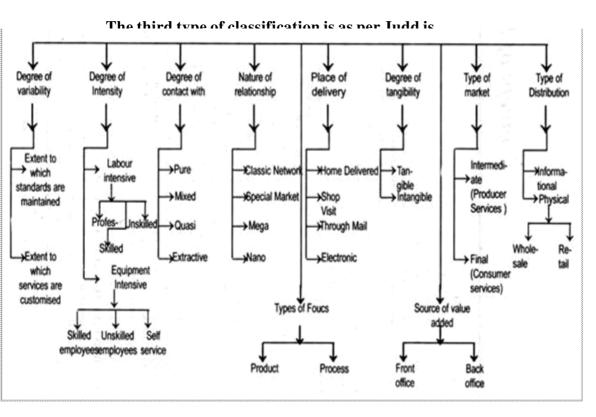
Services are neither a homogeneous group, nor different in-between according to industry classification. Services can be segmented into clusters that share certain marketing-relevant characteristics. Different types of services result in different levels of customer involvement.

#### A. Classification based on tangibility and target.

The services cam aim at people or their physical possession. Though the services is intangible in nature, the nature of service act can be tangible. Based on the above parameters, services are classified

TABLE 1.1: CLASSIFICATION OF SERVICE

Figure 1.2: CLASSIFICATION OF SERVICE



Ø High Contact (health care, Hotel etc)

Ø Low Contact (Postal services)

#### Chase had given below sixth type of classification

- Ø Services that require Skilled labours
- Ø Services that require Unskilled labours
- Ø Services that require semi skilled labours

#### 1.6 DIFFERENCES BETWEEN GOODS AND SERVICES

There are five main differences between service and manufacturing organizations: the tangibility of their output; production on demand or for inventory; customer-specific production; labor-intensive or automated operations; and the need for a physical production location. However, in practice, service and manufacturing organizations share many characteristics. Many manufacturers offer their own service operations and both require skilled people to create a profitable business.

#### Goods

The key difference between service firms and manufacturers is the tangibility of their output. The output of a service firm, such as consultancy, training or maintenance, for example, is intangible. Manufacturers produce physical goods that customers can see and touch.

#### **Inventory**

Service firms, unlike manufacturers, do not hold inventory; they create a service when a client requires it. Manufacturers produce goods for stock, with inventory levels aligned to forecasts of market demand. Some manufacturers maintain minimum stock levels, relying on the accuracy of demand forecasts and their production capacity to meet demand on a just-in-time basis. Inventory also represents a cost for a manufacturing organization.

#### **Customers**

Service firms do not produce a service unless a customer requires it, although they design and develop the scope and content of services in advance of any orders. Service firms generally produce a service tailored to customers' needs, such as 12 hours of consultancy, plus 14 hours of design and 10 hours of installation. Manufacturers can produce goods without a customer order or forecast of customer demand. However, producing goods that do not meet market needs is a poor strategy.

#### Labour

A service firm recruits people with specific knowledge and skills in the service disciplines that it offers. Service delivery is labor intensive and cannot be easily automated, although knowledge management systems enable a degree of knowledge capture and sharing. Manufacturers can automate many of their production processes to reduce their labor requirements, although some manufacturing organizations are labor intensive, particularly in countries where labor costs are low.

#### Location

Service firms do not require a physical production site. The people creating and delivering the service can be located anywhere. For example, global firms such as consultants Deloitte use communication networks to access the most appropriate service skills and knowledge from offices around the world. Manufacturers must have a physical location for their production and stock holding operations. Production does not necessarily take place on the manufacturer's own site; it can take place at any point in the supply chain.

#### 1.7 SERVITIZATION

Servitization is a process of increasing value by adding services to products. It is a means to create value-added capabilities that are distinctive and sustainable over competitors. It is normally configured as a process of innovation as part of the business model of an organization, leading to integrated supply goods and services, improving the satisfaction of customer needs, performance and allowing the generation of competitive advantages.

Servitization can be defined as "the innovation of organisation's capabilities and processes to create mutual value through a shift from selling product to selling Product-Service Systems". Two other definitions accompany this: (i) the idea of a product-service system - "an integrated product and service offering that delivers value in use" and (ii) a "servitized organisation which designs, builds and delivers an integrated product and service offering that delivers value in use".

Servitization as a word has been around since the late 1980s. As the services began to dominate the economy world over, companies visualization that they can no longer stay in business, if they limited themselves only to the merchandized goods.

Today the companies cannot sustain in the business by delivering the goods alone. Also the profit is more when companies indulge themselves into services. In the today's market no product

can remain as a pure good, some or the other services part is mixed with it. You can clearly understand the concept of servitization with the following examples

- 1. Today's TVs are coming with games, Pen drive slot, connectivity to computer and internet and skype. Many software are installed in the television.
- 2. ACC Cement Company has started an online consultancy service. The customers can directly call ACC Company and resolve their doubt regarding construction of houses.

The addition of service offerings to the portfolio of traditionally product-oriented companies is of growing importance, with innovative new business models underpinning product-service systems. Knowledge-Intensive Business Services (KIBS) and other kinds of advanced business services are increasingly viewed as a vital in keeping manufacturing companies and industrial sectors competitive. In this scenario, the existence of tools, techniques and methodologies for servitization become key issues for the organization, also needing to include service companies in their value chain. This leads to business models which leverage the development of software and other smart services to create novel value propositions and service-type transactions.

Moreover, advanced business services form an increasingly important part of the tertiary sector of economies, and they also gain leverage power with regard to the primary, secondary and quaternary economic sectors.

Today companies have to recognize that the product is a platform to deliver a service. They have to build solutions that deliver the outcomes their customers want and value. In essence these solutions are often capture in product-service systems, combinations of products and services. Customers only realize value from these when they actually receive the service - hence the concept of value in use.

In essence, servitization is a transformation journey - it involves firms (often manufacturing firms) developing the capabilities they need to provide services and solutions that supplement their traditional product offerings. It is new way of thinking. It is redefining the business. In fact, servitization offers more profit margins to the companies than those which restrain themselves only to manufacturing.

1.8 NOTES			

-	 	
·	 	

 _
_

#### 1.9 SUMMARY

The above unit gives you an idea about basic concepts of services. It well defines services, and explains the classification of services. This unit also discusses the scope of services. An emerging concept of servitization is also discussed here. This unit helps you to understand the significance of services.

#### 1.10 KEY WORDS

Service, intangibility, inseparability, variability, Servitization,

#### **1.11 SELF ASSESSMENT QUESTIONS**

- 1. Define Service
- 2. Outline the classification of service
- 3. Explain the characteristics of services
- 4. Differentiate between goods and services

#### 1.12 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management : Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

### **UNIT - 2 : SERVICE SECTOR**

#### **Structure:**

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Significance of Services
- 2.3 Emergence of Service Economy
- 2.4 A Scenario of Indian Service Sector
- 2.5 Contribution of Services to GDP
- 2.6 Case Study
- 2.7 Notes
- 2.8 Summary
- 2.9 Key Words
- 2.10 Self Assessment Questions
- 2.11 References

#### 2.0 OBJECTIVES

After studying this unit, you should be able to:

- Ø Explain the significance of service;
- Ø Identify the emergence of service sector in Indian economy;
- Ø Outline the scenario of Indian Service Sector and
- Ø Appreciate the contribution of service sector to GDP.

#### 2.1 INTRODUCTION

Dear Student, you might have observed that service sector is the most vibrant part of any economy world over. The emergence of service sector demonstrates the up-liftment of social well being, the increased purchasing power of people. Today, In India 44 per cent of the employment opportunities are created in service sector only. Service sector is generally called territory sector of the economy, the primary sector being agriculture and secondary sector being industry.

In the United States, 70 percent of the workforce works in the service sector; in Japan, 60 percent, and in Taiwan, 50 percent. These are not necessarily busboys and live-in maids. Many of them are in the professional category. They are earning as much as manufacturing workers, and often more. For the last 20 years there is phenomenal shift from primary and secondary sector to the territory sector. This shift is called territorization. The service sector is also called as soft sector of the economy as the services provided are not hard core and visible. It is the largest growing sector and also fastest growing sector in the world.

The existence, growth and volume of Service sector are a measure of a country's economic progress. The service sector is more systematic and comprehensive in the developed economies where as service sector is in nascent stage in the developing and under developed economies.

#### 2.2 SIGNIFICANCE OF SERVICES

Services contributes substantially to the process of development. In future, the service sector would operate in a conducive environment offering great potential. If the opportunities are properly utilised by the service sector, it will lead to an all round development of the economy. The significance of the service may be discussed under the following headings:

#### -> Generation of employment opportunities:

The components of the service sector are wide and varied. For example, the service sector includes personal care services, education services, medicare services, communication services, tourism services, hospitality services, banking services, insurance services, transportation services, consultancy services, etc The organised and systematic development of the service sector would create enormous employment opportunities.. However, it is appropriate to mention that India has not been successful in utilising the potential of the service sector. In USA about 70 per cent of job opportunities are offered by the service sector compared to India's 44%. So, the significance of the service sector lies in its capacity to create job opportunities. If the service sector is properly developed, it will solve the problem of unemployment in India to a great extent. After liberalization, the service sector in India has been emerging as a dominant component in the economy.

#### -> Optimum utilization of resources

Optimum Utilization of Resources India is bestowed with rich resources. Particularly, the human resources available in India favour the service sector. While the labour content in most manufacturing activities is dropping steadily with use of technology, the labour content in the service sector is comparatively high. As India is rich in human resources, service sector can grow steadily. Moreover, service sector offers excellent export opportunities too. Service firms such as personal care services, the entertainment services, tourism services, hotel service contribute to the growth of the economy without consuming any natural resources. In a sense, the growth of service firms of this kind conserves natural resources. Thus, services marketing help conserve the valuable resources for future generations.

#### -> Capital formation

There are indications that Services will grow more rapidly in the near future. Economic, social and political factors signal an expansion of the service sector. Investments and job generations are far greater in the service sector compared to manufacturing. It is estimated that telecom alone will account for an investment of Rs. 150,000 crores in the coming years. Investment encourages capital formation. For the development of a nation, the flow of capital should be directed towards the most productive uses. If investments are made in the service sector, it will contribute to the nation-building process. With increased developmental activities, the per capita income increases which, in turn, facilitates capital formation. Performance of profitable services can absorb higher investments, thereby accelerating the rate of capital formation.

#### -> Increased standard of living

The standard of living of the people in any country would be decided on the basis of quality and standard of products consumed or services availed in the day-to-day living. Any development is transparent only when the living conditions of the masses improve. When compared with developed countries, the standard of living in India is far from satisfactory. Standard of living cannot be improved unless offering more opportunities for earnings. On the other hand, the standard of living is determined by the availability of goods and services for citizens and a wise spending on them. The development of services industry is sure to promote the standard of living of the people.

#### -> Use of environment-friendly technology

Now-a-days, almost all services are found technology-driven. Developed countries are making full use of latest technology while rendering services. Technolog used by service generating organisations such banks, insurance companies, tourism, hotel services, Communicational services and education services are not detrimental in any way to the environment. On the contrary, technologies used in manufacturing organizations may have harmful effects on the environment. So, services industry do not affect environment.

#### 2.3 EMERGENCE OF SERVICE ECONOMY

Dear student, as already discussed the growth services is the indicator of prosperity and the economic progress of a country. When people have sufficient money to buy the basic products such as food, water and shelter, then they look forward to buy comforts which are available in terms of services.

Service Sector of Indian Economy contributes to around 55 percent of India's GDP during 2013 - 14. This sector plays a leading role in the economy of India, and contributes to around 68.6 percent of the overall average growth in GDP between 2010-11 and 2013-14. The service sectors of Indian economy that have grown faster than the economy are as follows:

- · Information Technology (the most leading service sectors in Indian economy)
- · IT-enabled services (ITeS)
- · Telecommunications
- · Financial Services

- · Community Services
- · Hotels and Restaurants

There has been a 13 percent hike in the service sectors of trade, hotels, transport and communication in India's economy as compared to the 10.4 percent rise in the previous year. The financial services that comprise of banks, real estate, insurance, and business services witnessed a rise of 11.1 percent during 2013-14 against the 10.9 percent growth in the previous year. Service sectors including community, social, and personal services experienced a growth of 7.8 percent during 2006-07 as against 7.7 percent growth in the previous year.

The service sector of India has also witnessed a remarkable rise in the global market apart from the Indian market. It has experienced a rise of 2.7 percent in 2014 from that of 2 percent in 2012. The broad-based services in the trade sector has undergone a large-scale rise. A statistics concerning the growth of India's service sectors are listed below:

- The software services in Indian economy is increased by 33 percent which registered a revenue of USD 31.4 billion
- Business services grew by 82.4 percent
- Engineering services and products exports grew by 23 percent and earned a revenue of USD 4.9 billion
- Services concerning personal, cultural, and recreational had a growth of 96 percent
- Financial services had a rise of 88.5 percent
- Travel, transport, and insurance grew by 23 percent

The software services in Indian economy along with the export of products is growing at a massive pace and thereby witnessed an alarming rise of 35.5 percent and reached a lumpsum amount of USD 18 billion. The ITES and BPO sectors grew by 33.5 percent and earned a revenue of USD 8.4 billion. The service sector of Indian economy has been the most high-powered sector in India's economy. It has also been focusing in various investments of late. As Indian economy is looking forward for more liberalization, sectors like banking are on its way to loom large and occupy a more significant position in India's economy.

#### Reasons for growth in service sector

India's service sector is the 12th largest in the world by nominal GDP and 4th largest when purchasing power is taken into account. The service sector provides employment to 27% of the population. After the liberalization in the year 1991, the contribution of service sector is continuously increasing in the growth of our economy. However, agriculture is still dominating the Indian economy and taken up by majority of the population in India. Yet the per capita income is low. Service sector are growing not only in volume but also in sophistication and complexity.

Let us look into the factors that have led to the growth of the service sector in India:

#### • Economic Affluence

The Indian society is characterized by an increasing middle class. In addition, the liberalization of the Indian economy has had a positive impact on the Indian households. Their income and expenditure has been pushed up fostering the demand for goods and services. Here with the increasing affluence, there has been an increase in the demand for those services, which the customers used to perform by themselves. For example, service provided by the gardener, servants, car driver etc.

#### • Changing Role of Women

Earlier women were a neglected lot, who only had to carry out household chores. But with time there has been a change in the way of thinking. Women are educated and allowed to work. They are employed in several erstwhile male dominated services such as defence services, police services, postal services, software services, health services etc. With the passage of the time, there has been an increase in the volume of working women. This has indirectly lead to increase in the growth in the services such as, domestic servants, baby sittings, etc

#### • Changing Culture

The traditionally common joint family system is slowly disintegrating and making way for a nuclear family way of living. This has been accompanied by an increased demand for a number of services like education, health care, entertainment, tourism etc. There has also been a marked change in a person's way of thinking with respect to investment, recreation and time perception leading to increased demand for services.

#### Growth of IT Sector

In India information technology and business outsourcing are amongst the fastest growing

sectors having a cumulative growth rate of revenue. The growth of IT sector can be attributed to several factors such as increased specialization and availability of a large pool of low cost, highly skilled, educated and fluent English speaking workers. This supply is matched by increased demand from foreign customers who are interested in India's service exports or those looking to outsource their operation.

#### More leisure(free time) time

This factor has lead to an increase in those services which are related to entertainment, because of increase in leisure time in today's people life. For example, tourism industry has grown because of more leisure time available to the people.

#### • Greater life expectancy(hope)

With increase in the average life of the people, there has been an increase in the service which is related to field of health care, for example, medical services, pathology laboratory, nursing homes. Health care services etc.

#### Greater complexity of the product

With the growing complexity of the product, there has been an increase in the services which are indirectly supporting the maintenance of these complex products. For example, Airconditioner, car, computer, and other complex products require service every yearly or every half yearly.

#### Increasing complexity of life

This has lead to an increase in the services of marriage bureau, legal service, income –tax consultants, placement services, etc.

#### Increasing number of new products

There are certain products which, if invented will lead to growth in the service sector .computer being the invention of the 21<sup>st</sup> century has lead to software industry which is totally a service industry.

#### 2.4 A SCENARIO OF INDIAN SERVICE SECTOR

The service sector in India is composed of several services that are usually seen in the remaining parts of the world.

#### **Components of service sector**

The components of service sector is broadly classified in to two groups

#### (A) Economic Services:

It includes the following items, such as;

#### (i) Transport, Storage and Communication:

There are various types of transport, such as rail transport, road transport, water transport, air transport. Indian railway system is first in Asia and fourth in the world after USA, Russia and Canada. Both private and public sector play their role in transport.

Storage service is provided by both government and private. Central Warehousing Corporation (CWC), the Food Corporation of India (FCI) etc. are the government units which provide storage facilities. There are several cold storage facilities mainly provided by private authorities.

Communication is a vital service of an economy. It includes postal and telegraph, telecommunication, information and broadcasting etc. In India postal department includes several new schemes like Speed Post, Express Post, E-Post, Media Post, Satellite Post etc. Indian telecommunication network is one of the largest in Asia. It provides land phone, mobile phone and e-mail services. The Indian Telephone Industry was the first public sector born in 1948. IT and ITES (IT enabled services are the most rapidly developing services). This service is the key component in earning forex. Companies like Infosys, Wipro, TCS, and Mahindra have branches all over the world.

#### (ii) Trade, Hotels and Tourisms:

Trade service comprises both domestic and foreign trades. Domestic trade means trade between the different states and cities within the country. On the other hand, foreign trade means trade between different countries. It includes both exports and imports. There are several public sector units like State Trading Corporation (STC), Minerals and Metals Trading Corporation (MMTC), Special Economic Zones (SEZ) etc giving sufficient support to increase the foreign trade in India.

Nowadays, several private sector units are also taking part to enlarge international trade. Hotel industries are mainly run by private entrepreneurs. However, both government and private bodies are equally responsible to increase tourism service in India.

#### (iii) Banking and Insurance Services:

Development of banking service is the major indicator of economic growth. In India, banking network is spread all over the country. For the flourishment of other service sector, banking sector plays a very vital role.

In India, apart from the Central Bank, i.e., Reserve Bank of India (RBI), all the commercial banks including both public and private sector banks are performing a true role for the country's development. Public sector banks include SBI, PNB, UBI, UCO Bank etc. and private banks include HDFC, HSBC, AXIS Bank etc. In-spite of these, there are several non-banking financial institutions like NABARD, ICICI, IDBI etc. Moreover, there are several public insurance units like LIC, GIC etc. and private insurance units like Tata AIG, Biria Sunlife etc.

#### (B) Social Services:

It includes following items, such as;

#### (i) Education:

After Independence, education system has increased tremendously. General education facilities have increases in good number. There are sharp increase in the number of primary, middle, high and higher secondary schools. A decent number of students have enrolled in the schools. Not only that, number of colleges, deemed universities and universities have also risen to a large extent.

Moreover, technical and professional education institutions are also increasing rapidly. Medical colleges, engineering colleges, agriculture colleges and business schools etc. are also growing rapidly in India. All these have increased the standard of education system in India.

#### (ii) Health:

It is an important component of service sector of India. The health service includes number of hospitals, dispensaries, community health services, primary health centres, number of doctors, nurses, beds in hospitals along with the number of doctors per 1000 population. Both private and

public sectors are working together to improve the health services in urban and rural parts of India. After Independence medical facilities have improved in India.

#### (iii) Administration:

In India administrative service has also increased at a rapid pace. After Independence, the offices of BDO (Block Development Office), DM (District Magistrate), IAS (Indian Administrative Service), IPS (Indian Police Service), IFS (Indian Forest Service) and Judicial Courts have increased to operate smooth functioning of civil services in India.

The service sector is the largest and fastest growing sector in India and has the highest labor productivity. While India is among the top 10 World Trade Organization members in service exports and imports, the growth and export of services is less than that of the People's Republic of China, and exports are competitive in only a few services and are concentrated in a few markets. Most of the poor in India do not have access to basic services such as healthcare and education, and infrastructure is weak so the cost of service delivery is high. Although India wants to be a knowledge hub, there is no uniformity in the quality and standards of education, and formal education does not guarantee employability. Policy measures are suggested for inclusive growth that will also enhance India's global competitiveness in services.

Due to the structural transformation of the Indian economy in the new millennium in favour of a are of the services sector in the total GDP growth of services year after year in this

# India: Services' sector growth trends

	2010-11	2011-12	2012-13	2013-14	
Construction	5.7	10.8	1.1	1.6	ECTOR GROWTH
Trade, hotels, transport & communication	12.2	4.3	5.1	3.0	
Financing, insurance, real estate & business services	10.0	11.3	10.9	12.9	
Community, social & personal services	4.2	4.9	5.3	5.6	
Totalservices	9.2	7.1	6.2	6.2	

The below graph shows the sectoral growth of different components. From the below graph you can see how the various components of service sector has grown from 2014 to 2015.

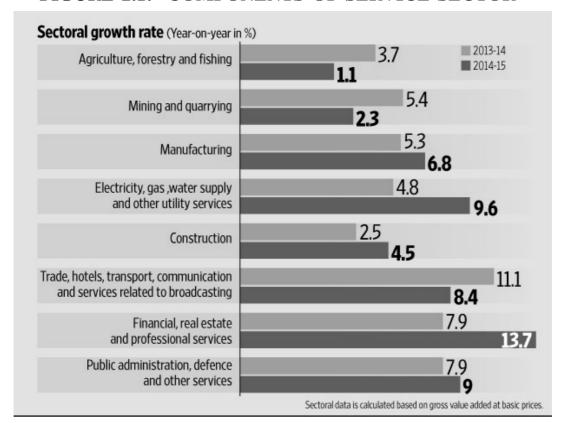


FIGURE 2.1: COMPONENTS OF SERVICE SECTOR

# 2.5 CONTRIBUTION OF SERVICES TO GDP

The gross domestic product (GDP) means the total value of all the services and goods that are manufactured within the territory of the nation during the specified period of time. The Indian economy is the second fastest major growing economy in the whole world with the growing rate of the GDP at 7.3% % in 2014-2015. The economy of India is the seventh biggest in the world for it has the GDP of US\$ 2.1 trillion in 2015.

India ranks fifteenth in the services output and it provides employment to around 27% of the total workforce in the country. The various sectors under the Services Sector in India are construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community, insurance, financing, business services, and real estate.

The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP for it accounts for around 52.0% in 2015. The contribution of the Services Sector in India GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950. Further the Indian Services Sector's share in the country's GDP has increased from 43.695 in 1990- 1991 to around 51.16% in 1998- 1999. This shows that the Services Sector in India accounts for over half of the country's GDP.

The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India specially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP.

The table below indicates how the economic structure of our country has been changed ver decades.

Table.2.2 Changing Economic Structure of India							
<b>Economic Activity</b>	1950-51	1960-61	1970-71	1980-81	1990-91	2000-2001	2010-11
Agriculture and Allied Activities	55.4	55.1	44.5	38.1	25.2	23	18
Industry	16.1	17.3	23.6	25.9	26	26	27
Service Sector	28.5	27.6	31.9	36	47.8	51	55

The above table shows you the paradigm shift in the components of economic structure. Till 1970-71 agriculture was dominating our economy. The industrial sector has also recorded steady growth after 1970-71. The service sector could record phenomenal progress particularly after liberalization, globalization and privatization. Today the service sector is dominating our economy. Services Sector Growth Rate in Indian GDP registered a significant growth over the past few years. The Indian government must take steps in order to ensure that Services Sector Growth Rate in Indian GDP continues to rise. For, this will ensure the growth and prosperity of the country's economy.

# **Limitations on growth in Service Industries**

Dear student, by referring to the above section about growth and emergence of service sector, you might come to a conclusion that service will continue to be important in the economy and growth would be phenomenal. Well, While this cannot be completely contemplated, one can not take the growth in the service sector as granted. The reason being even the service sector is suffering from various problems.

However, even in the times of economic decline and stagnation there is evidence to suggest that the demand for service is less sensitive to economic fluctuations. But any optimistic forecasting of growth of services should consider the following possible limitations. These factors that pose limitations on growth service sector can be divided in to two groups.

#### A. External Forces

- Changing orientations of customers The taste and preference of customers may vary. While a large segment of customers prefer to eat out, there is in increasing number of people who prepare homemade food for being hygienic and clean
- Changing Technology-The companies are coming out with customer friendly products which demands less skills to operate, hence demand for highly skilled people would reduce. Further the products prices are becoming less keeping competition in mind and also better products are released in the market with higher technology such that customers would prefer to buy a new product than getting the older one repaired. For Example Mobiles. Also companies produce long lasting products such as TV. Hence there is decreased demand for service centres.
- Changing Market: The markets are also becoming saturate. Hence it is difficult for the companies to find new customers, hence they concentrate their effort in repeat sales. Buy backs schemes are introduced. The export of service is highly affected by currency fluctaitons.
- Servitization The manufacturing companies themselves offer variety of services, undermining the need to search for a service provider. In the most

of the cases the product and the services comes as package. For example, Life time free service.

#### B. Internal Forces

Some of the internal factors include

- Unorganized service sector- Many of the services are not branded. They are run by the local service providers. Hence assuring the quality and good service is very difficult. Further these service organizations lacks professional approach.
- Shortage of skilled people Many hospitals search for skilled doctors, many educations institutes search for skilled lecturers. IT companies search for talented software professionals.
- Government monopoly Still in many sectors, government monopoly exists such as electricity generation and distribution, railways, bus transports in certain routes, Licensing and issue of various certificates and so on. Government also controls certain service sectors banking, insurance, tele communication.

The government both at centre and state should bring out affective measures to remove deficiencies in service sector.

#### 2.6 CASE STUDY

Growell is Mumbai based company engaged in web based retail business. They have a group of suppliers who display their products on the Growell's website. The customers place orders online. The Growell company wanted to improve its financial performance and tried to selected only profitable suppliers. They wanted to hire a Chief Financial Officer at Rs 75,000/- per month.

The 'Virtual CFOs' – an another Mumbai based company, that provides all financial services online, contacted Growell and agreed to take up that project. Growell plugged all its financial data in to an excel software template set up by Virtual CFOs and the programmed generated a balance sheet and cash flow statements. The spread sheets were emailed to Virtual CFOs and the company assigned a charted accountant who interpreted the data analyzed by software and advised Growell

on strategy. Virtual CFOs performed a number of other financial and tax services to Growell. They charged only Rs 25,000/- per month.

# Question

1.	Do you think it is better to outsource financial services to a third party or should the company
hire a	CFO for its own operations?
2.7	NOTES
-	


#### 2.8 SUMMARY

Services sector is the lifeline for the socio-economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. In alignment with global trend, the Indian Services sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent time. Services sector in India today accounts for more than half of India's GDP. Since independence, there has been a marked acceleration in Services sector growth in India. Economic growth has slowed down in recent past exception being 2014-15. Growth in employment in services has not been commensurate with the share of the sector in GDP. The contribution of Services sector and its components in total GDP has been increased phenomenally as compare to Primary and Secondary sectors during the two to three decades. As India is travelling a novel path in economic growth by making services as the engine of growth, and bypassing industry, careful strategy are needed for consolidating, strengthening and furthering the growth. However it is highly advocated that the growth of Services sector must be in tandem with Primary and Secondary sector for the comprehensive economic development of the economy

# 2.9 KEY WORDS

GDP, Service sector, Out Sourcing

# 2.10 SELF ASSESSMENT QUESTIONS

- 1. Define Service Sector
- 2. Explain the components of service sector
- 3. Examine the growth of Indian service sector
- 4. Identify limitation of Indian service sector
- 6. How service sector is contributing to GDP?

# **2.11 REFERENCES**

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology,* Bengaluru: McGraw-Hill, 2010.
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. Service Management and Operations. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# UNIT – 3 : SERVICE EXPECTIONS AND SERVICE STRATEGY

# **Structure:**

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Future of Service Sector
- 3.3 Service expectations
- 3.4 Service Strategy
- 3.5 CRM
- 3.6 Notes
- 3.7 Summary
- 3.8 Key Words
- 3.9 Self Assessment Questions
- 3.10 References

# 3.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify the future of service sector;
- Asses service expectation;
- Formulate service strategy and
- Outline the concept of CRM.

#### 3.1 INTRODUCTION

Dear Student, by this time you would have been able to appreciate the growth and contribution of service sector in India. You should recognie should that service is vital to the the product sector as well as to the service sector. Service management accentuates the fact that emphasis has to be given to the aspects like service delivery and improving the services over time. Service management works from multifunctional perspective. Service providers should consider seriously the relationship between various variables such as strategy, human resources and organizational behaviour. The last decade has brought tremendous change in the way of delivering and accepting the services.

You may be interested to know the future of these service industries. The service sector can grow leaps and bounds only when it can meet the expectations of the customers. For this proper planning is necessary. However mere meeting of the customer expectations may not be suffice to sustain in the present competitive market. Hence the service organizations must evolve proper strategies to not only satisfy the customers but also to delight customer and thus increase their loyalty. The brand equity can be built by building customer loyalty. One such strategy involves proper customer relationship management. CRM helps in boosting the customer loyalty. The quality assurance of the service has to be provided by the service provider which requires service inspection. In this unit we are trying to provide all those information which helps to build and sustain consumer loyalty.

# **3.2** FUTURE OF SERVICE SECTOR

Though the future is always uncertain and taking any decisions based on trend projection is always riskier, one can highlight the possible future of service sector taking into consideration the present scenario. The future of service sector varies for different components of service sector.

a. Old Services: The demand continues to fall for many old services. Today automation has largely replaced many traditional services. Computers have also replaced the demand for such services which need human intervention.

For Eg: Good hand writing, typists, postal services, repair

- b. New Services: Demand will be fairly close to the trend of output and income in the overall economy( Health, education, tourism). Private consumer demand for leisure and recreation related services may tend to increase further as personal income of the economy is growing, The resources devoted to the new services that are publically provided (eg Health and education) will be influenced by the factors like the general health of the economy. The complexion of the government offics will clearly influence what share of resources will be devoted to the public services although this decision in turn will be influenced by the factors like the general health of the economy and general demographic trends. Today internet has become the major service. The financial advisors are finding place in all businesses. As the businesses become complicated, it requires the services of the professionals.
- c. Complementary services: Demand for these will be influenced by the health of the sectors which use them. If the fortunes of manufacturing sector improve then intermediate services will grow (Eg Computing, finance, research). If the manufacturing continues to stagnate then intermediate services will suffer too. They had growth faster than manufacturing in the past but it is unlikely that under stagnant condition they would continue to enjoy any such growth.

# 3.3 SERVICE EXPECTATIONS

Satisfaction and delight are both strongly influenced by customer expectations. By expectations, one can understand it as an array of possible outcomes that reflect which might, could, should and had better not happen. There several kinds of expectations. You can draw a hierarchy of expectations.

# FIGURE 3.1: SERVICE EXPECTION

Ideal expectations refer to the performance wished for in a perfect service. Desired expectations are the performance levels that customer wants the service to meet in practice. If the service provider cannot deliver service at the desired level, customers may be willing to tolerate

that lead to inference about what the service should and will be like. For eg when you go to a good hotel, you may accept water there and may not order packaged water bottle, assuming that the water they serve is pure.

- 3. Word of mouth Communication- This shapes expectations of service. They are the statements made not by the organization but from a third party.
- 4. Past experience- This refers the own experience of a service receiver in past.

# 3.4 SERVICE STRATEGY

To ensure leadership in providing service and thus attract more business, firms must have their own service strategy. The service strategy is the companiy's road map not only to ensure a quality service but also to be ahead of the competitors.

Service Strategy helps to design, develop and implement service management as organizational capabilities and strategic assets as well. It enables a service provider to consistently outperform competitive alternatives over time, across business cycles, industry disruptions and changes in leadership.

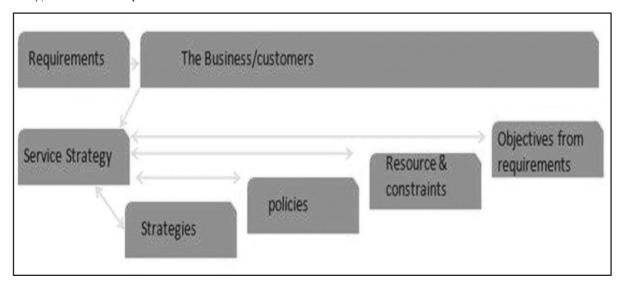


FIGURE 3.2: SERVICE STRATEGY

- The steps in formulating a service strategy or defining services
- 1. Defining services
- 2. strategic Assement
- 3. Desiging prosses
- 4. Strategy management
- 5. Measures and preparation for implemention of strategy

# **Defining services**

The fundamental step inform mating a service strategy is to define service

When defining a service, strategist must have in mind list of principles, as stated below:

- Value creation
- Service assets
- Service provider types
- Service structure

#### **Value Creation**

Service strategy defines a unique approach for delivering better value. The companies can gain a competitive edge over others by creating an unique value in their services. According to customers, service consist of two elements:

- Utility
- Warranty

# **Utility**

Utility is perceived by the customer from the attributes of the service that have positive effect on the performance of task associated with the desired business outcomes. It depends on the satisfaction received by the customer. It can be measured through references introduced by a customer. This is fit for purpose.

# Warranty

Warranty ensures the utility of the service is available as needed with sufficient capacity, continuity, and security. Value of warranty is communicated in terms of level of certainty.

The firms must create an unique value either in the utility part or warranty part of service The service provider must have a proper quality assurance system in place to ensure warranty of the service.

#### **Service Assets**

The service provider must assess the assets he has in order to formulate a proper strategy. There are two types of service assets as listed below:

- Resources
- Capabilities

#### Resources

Resources are the inputs for production. The resources are transformed by management, organization, people and knowledge.

# **Capabilities**

Capabilities refer to skills to develop and control the resources for production. The skills are based on knowledge, experience and information.

Firms must have optimum misx of these two assets

	Capabilities	,	Resources	
A1	Management		Financial capital	A6
A2	Organization		Infrastructure	A7
A3	Processes		Applications	A8
A4	Knowledge		Information	A9
	People	A5	People	

# Service provider type

There are three types of service providers that may include service provided as well as providers for the service:

- 1. Internal service provider: exists within an organization and provides service solely for a unique business unit (Administration, finance, human resources, and IT service providers all comes under internal service providers)
- 2. Shared service unit: exists within an organization, but provides service for more than one business unit. (In this, business functions such as IT, human resources, and logistics are consolidated into an autonomous special unit called a Shared Service Unit (SSU).
- 3. External service provider: operates outside organization. (External service provider refers to the third party service providers. It can offer competitive prices and drive down unit cost by consolidating demand).

Firms must be able to identify the capabilities of these service providers and aim it maximizing their capabilities.

#### **Service Structure**

Service structure refers to the manner in which a firm delivers the service. It includes organization for service, service delivery, and communication pattern with the customer and the action taken on the feedback obtained.

#### **Strategic Assessment**

Before crafting service strategy, a provider should next take a careful look at what it does already. The following questions can help expose a service provider's distinctive capabilities:

- Which of our services or service varities are the most distinctive?
- Which of our services or service varities are the most profitable?
- Which of our activities in our value chain or value network are the most different and effective?

#### Factors in Strategic Assessment

Here are the key factors that play important role in strategic assessment:

**Table -3.1Factors in Strategic Assessment** 

S.N.	Description
1.	Strengths and weaknesses  The attributes of the organization. For example resources and capabilities, service quality, skills, cost structures, product knowledge, customer relationship etc.
2.	Business Strategy The perspective, position, plans and patterns are received from a business strategy.
3.	Critical Success factors  How will the service provider know when it is successful?
4.	Threats and opportunities Includes competitive thinking. For example, is the service provider vulnerable to substitution?, or Is there a means to outperform competing alternatives?

# **Designing in porous**

Having defined service and assesing the existing resources strategically firms should design their principle of stratigies in a unique way keeping customer delightment and competition in mind.

Once the principles are designed, the strategist can implement these strategies through process. Service strategy has two processes:

- Ø Service Portfolio Management and
- Ø IT Financial Management, .

# Service Portfolio Management

Service portfolio defines all services that a service provider can provide. It helps to control service management investments throughout an enterprise and actively managing their value.

Service portfolio management is composed of four sub-processes:

- -> Strategic service assessment: assesses current service in the market.
- -> Service strategy definition: to define overall goals of the service, as well to define customer and customer segmentation.
- -> Service portfolio update: adjusts services offered in portfolio based on strategy definition.
- -> Strategic planning: defines, initiates and controls the program and projects required to execute Service Strategy.

#### **IT and Financial Management**

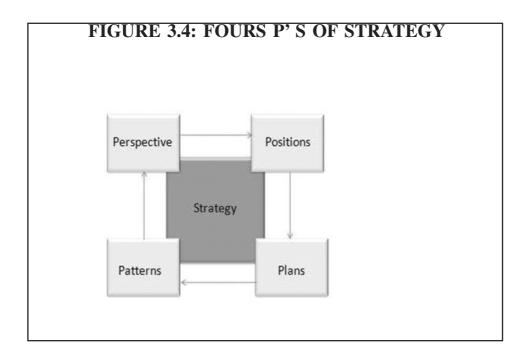
Financial management helps to determine all the costs of organization including IT. It can serve as a strategic tool for all three kinds on service provider types: internal, external and shared service provider.

IT & financial management is composed of four sub-processes:

- -> Financial management support: defines necessary structure for management of financial planning data and costs.
- -> Financial planning: determines required financial resources over next planning period.
- -> Financial analysis and reporting: analysis of financial costs provisioning and service profitability.
- -> Service invoicing: issues invoices for the provisioned service.

#### The Four Ps of strategy

The below mentioned Four Ps identify the different forms of a service strategy and are considered as entry points to service strategy.



# **Perspective**

It describes a vision and direction and articulates the business philosophy of interacting with customer.

#### **Positions**

It describes the decision to adopt a well defined stance. It is expressed as distinctiveness in minds of customers. This means competing in the same space as others but with differentiated value proposition that is attractive to the customer. Whether it is about offering a wide range of services to a particular type of customer or being the lowest cost option, it is a strategic position.

# Plan

A plan describes "How do we offer high value or low cost services?" or "How do we achieve and offer our specialized services?"

#### **Pattern**

It describes the organization's fundamental way of doing things.

# **Strategy Management**

Strategy Management comprises of four activities as listed below:

- · Defining the market
- Developing offerings
- · Developing strategic assets
- · Measuring and Preparation for implementation of strategy

#### **Defining the market**

It is necessary to take survey of services available in the market. It gives a clear perspective of cost and quality of services already present and what new service can be offered in competitive environment.

#### **Developing offerings**

In this service provider develops a portfolio which contain all the services that are visible and available for the customer. Service portfolio is developed in order to represent all binding service investments towards the market.

# **Developing strategic assets**

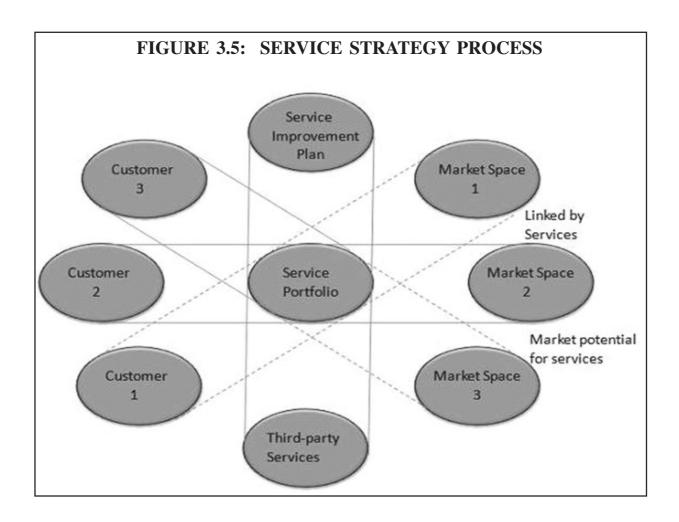
It deals with buying new technologies, resources and capabilities to offer low-cost and high-value service to the customer.

# Measuring and Preparation for implementation of strategy

In order to measure success or failure of the strategy, all critical success factors are measured. Also the completion in the market is observed and priorities are adjusted accordingly

#### **Service Portfolios**

Service portfolio contains description of all the services engaged throughout the service lifecycle. It also represents the commitment and investment made by service provider across all customers and market spaces.



Service catalogue is subset of service portfolio and contains presently active services in service operation phase.

# **Strategy Management roles**

Depending upon the size and nature of services provided by a firm, the number of managers who perform key roles are determined. There are several roles that are responsible for managing different key aspects of Service Strategy.

TABLE 3.2: SERVICE MANAGEMENT ROLES

S.N.	Role	Responsibility
1.	Business Relationship Manager	<ul> <li>Maintains good relationship with customers</li> <li>Identifies customer's needs</li> <li>Ensures service provider meet customer's need</li> <li>Works closely with Service Level Manager</li> </ul>
2.	Demand Manager	<ul> <li>Responsible for understanding, anticipating, and influencing customer demand for services</li> <li>Works with capacity manager to ensure that service provider has sufficient capacity to meet the required demand</li> </ul>
3.	Financial Manager	Responsible for accounting, budgeting, and charging requirements
4.	IT Steering Group (ISG)	<ul> <li>Sets direction and strategy for IT services</li> <li>Reviews the business and IT strategies in order to make sure that they are aligned</li> <li>Sets priorities of service development programs</li> </ul>
5.	Service Portfolio Manager	<ul> <li>Decides on a strategy to serve customers in cooperation with ISG</li> <li>Develops service provider's offering and capabilities</li> </ul>
6.	Service Strategy Manager	<ul> <li>Works with ISG in producing and maintaining the service provider's strategy</li> <li>Responsible for communicating and implementing service strategy</li> </ul>

**Strategic service management (SSM)** is a business strategy that aims to optimize the service that a company provides, by synchronizing service parts and resources forecasting, service partners, workforce technicians, and service pricing. Benefits of strategic service management can include:

- · Increased revenue through the servicing of manufactured products that may be experiencing decreased sales
- · Increased customer loyalty through improved service performance
- · Heightened asset accountability and tracking
- · Increased worker productivity
- · More knowledgeable workers to prevent common mistakes

Using strategic service management, Avaya reduced service parts inventory from \$250 million to \$160 million, Sun Microsystems saved \$40 million in the first year, and Dell grew service revenues over 20% in one year.

#### **3.5 CRM**

CRM stands for customer relationship management. Though maintaining a good relationship with the customer is not a new phenomenon, gaining a competitive advantage through customer relationship management is an emerging technology in business. CRM is very vital especially in service business. As you know the services are highly intangible in nature, it is difficult to measure the customer expectation towards a service and price a service. Today companies are using a variety of softwares for better CRM.

Customer relationship management is an information industry term for methodologies, software and usually capabilities that help an enterprise to manage customer relationships in an organized way. An enterprise might build a database about its customers that described relationships with sufficient details. It helps an enterprise to enable its marketing department to identify and target their best customers, manage marketing campaigns with clear goals and objectives and generate quality leaders for the sales team. It facilitates an organization to improve telesales, account and sales management by optimising information shared by multiple employees and streamlining existing processes.

It allows the formation of individualized relationships with customers with the aim of improving customer satisfaction and maximizing profits, identifying the most profitable customers and providing

them the highest level of service. It helps in providing employees, information and processes necessary to know their customers, understanding their needs and effectively build relationships between the company, its customer base and channel partners.

It can be identified that CRM is a comprehensive approach that provides seamless coordination between sales, customer service, marketing, field support and customer touching functions. CRM integrates people, process and technology to maximize relationships with all customers including ecustomers, distribution channel members, internal customers and suppliers. CRM increasingly leverages internet.

With the growth of the internet and related technologies, customers are concerned over the privacy and safety of their personal information. Therefore, businesses need to ensure that the storage and analysis of the customer data must have the highest levels of protection against cyber criminals, identity theft and other breaches of securities.

Customer relationship management entails all aspects of interaction that a company has with a customer, whether it is sales or service-related. While the phrase customer relationship management is most commonly used to describe a business-customer relationship, CRM systems are also used to manage business contacts, clients, contract wins and sales leads.

CRM includes the principles, practices, and guidelines that an organization follows when interacting with its customers. From the organization's point of view, this entire relationship not only encompasses the direct interaction aspect, such as sales and/or service related processes, but also in the forecasting and analysis of customer trends and behaviors, which ultimately serve to enhance the customer's overall experience.

CRM (customer relationship management) is an information industry term for methodologies, software, and usually Internet capabilities that help an enterprise manage customer relationships in an organized way. For example, an enterprise might build a database about its customers that described relationships in sufficient detail so that management, salespeople, people providing service, and perhaps the customer directly could access information, match customer needs with product plans and offerings, remind customers of service requirements, know what other products a customer had purchased, and so forth

CRM's core strength is an ability to glean insight from customer feedback to create enhanced, solid and focused marketing and brand awareness. Key motivating drivers for the development of more innovative CRM strategies are Web technologies and a sharpened global focus on customer loyalty.

#### CRM also:

- -> Provides a way to directly evaluate customer value. For example, a business that is genuinely interested in its customers is rewarded with customer and brand loyalty. Because CRM is mutually advantageous, market share viability advances at a sound pace.
- -> Provides cross-selling opportunities, where, based on customer approval, a business may pitch proven marketing or brand strategies to more than one client.

Customer relationship marketing should not be confused with "customer relationship management," a related, but unique concept that shares the acronym of CRM.

Customer Relationship Management is an integrated information system that is used to plan, schedule and control the presales and postsales activities in an organization. CRM embraces all aspects of dealing with prospects and customers, including the call center, sales force, marketing, technical support and field service. The primary goal of CRM is to improve long-term growth and profitability through a better understanding of customer behavior. CRM aims to provide more effective feedback and improved integration to better gauge the return on investment (ROI) in these areas.

Sales force automation (SFA), which became available in the late 1980s, was the first component of CRM. SFA, call center and automated field service operations were on parallel tracks in the 1990s and began to merge with marketing in the late 1990s to become CRM. Like ERP, CRM is a very comprehensive system, and numerous packages provide myriad options.

According to Glen Petersen, author of "ROI: Building the CRM Business Case," the most successful CRM systems are found in organizations that realign their business model for profitability, not just redesign their information systems.

3.6	NOTES	

-		

# 3.7 SUMMARY

Dear student, as mentioned earlier, Service sector is fastest growing sector in the economy. Service sector is more profitable hence it attracts more players to the field. More and more opportunities are being opened in this avenue. Hence the competition has also increased exponentially. The business has become more complex. All these development necessitated a surge in the development of service strategies. In this unit you have come across how strategies are being formulated and what factors are taken into account to formulate such strategies.

#### 3.8 KEY WORDS

Service Strategy, service expectations, CRM

# 3.9 SELF ASSESSMENT QUESTIONS

- 1. Identify the future of service sector
- 2. Explain the factors affecting service strategy
- 3. Examine the concept of CRM
- 4. Identify the different roles in service management
- 6. Write a note on service expectations

# 3.10 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# **UNIT - 4 : SERVICES MANAGEMENT**

# Structure:

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Service Management
- 4.3 Service Management Trinity
- 4.4 Service Value Chain
- 4.5 Gap Model
- 4.6 Service Mix
- 4.7 Notes
- 4.8 Summary
- 4.9 Key Words
- 4.10 Self Assessment Questions
- 4.11 References

# 4.0 OBJECTIVES

After studying this unit, you should be able to:

- Ø Explain the nature and importance of service management;
- Ø Analyze the relationship between components of service management trinity;
- Ø Evaluate service value chain:
- Ø Describe gap model and
- Ø Identify the elements of service mix.

# 4.1 INTRODUCTION

Service management deals with planning and delivery of service with an objective of satisfying the customer. The services have transformed in to more professional based approach these days. Hence they need to be managed more professionally. Service management as an overall management perspective gives high priority to the external efficiency of the firm, how customers perceive the quality of the core products and the total performance of a firm, instead of overemphasizing internal efficiency, economies of scale and cost reduction. This combines the overall management perspective of service management with its customer-driven and quality-oriented facets, employee-oriented concerns and its long-term perspective. In this unit let us try to examine several factors related to services management.

# **4.2 SERVICES MANAGEMENT**

Service management is a total organizational approach that makes quality of service, as perceived by the customer, the number one driving force for the operations of the business.

Service management draws insights from business practice and from marketing, operations, human resources, service quality management, organizational theory and economics.

# **Characteristics of service management**

The characteristics of service management are

- Ø It is customer-driven or market-driven (not driven by internal efficiency criteria);
- Ø It is a holistic perspective which emphasizes the importance of intra-organizational, cross-functional collaboration (not specialization and the division of labour);

- Ø Managing quality is an integral part of service management (not a separate issue); and
- Ø Internal development of the personnel and reinforcement of its commitment to company goals and strategies are strategic prerequisites for success (not only administrative tasks).
- Ø It is an overall management perspective which should guide decisions in all areas of management (not only provide management principles for a separate function such as customer service);
- Ø Customer focus is key aspect,
- Ø A holistic approach to cross-functional collaboration,
- Ø An emphasis on quality and
- Ø Internal development of personnel.

# **Objectives of Service Management**

The primary objectives of the Service management is

- Ø To understand the utility customers receive by consuming or using the offerings of the organization and how services alone or together with physical goods or other kinds of tangibles contribute to this utility, that is, to understand how total quality is perceived in customer relationships, and how it change over time;
- Ø To understand how the organization (personnel, technology and physical resources, systems and customers) will be able to produce and deliver this utility or quality;
- Ø To understand how the organization should be developed and managed so that the intended utility or quality is achieved; and
- Ø To make the organization function so that this utility or quality is achieved and the objectives of the parties involved (the organization, the customers, other parties, the society, etc.) are met.

# Integrated service management

As the discussion of service management above demonstrates, service management is not a well-defined area or a single theory of management. Rather it is a management perspective that fits today's competitive situation. Cost reductions and core product quality are still important to success,

but to achieve customers' satisfaction and a competitive advantage through differentiation of the market offer, more value has to be added to the core product. This is done through a variety of services and by turning activities such as deliveries, technical service, claims handling, telephone exchange, invoicing, etc. into customer-oriented, value-adding services. Hence a firm must consider all these factors and provide an integrated service management.

The various factors on which success of service management depends are

- Ø Product elements.
- Ø Place and time.
- Ø Process.
- Ø Productivity and quality.
- Ø People.
- Ø Promotion and education.
- Ø Physical evidence.
- Ø Price and other costs of service.

The service management must ensure the following in their services

#### **AVAILABILITY**

It assures the customer that the services will be available for use under agreed terms and conditions.

#### **CAPACITY**

It assures that the service will support a specified level of business activity or demand at a specified level.

#### **CONTINUITY**

It assures that the service will continue to support the business through major failures.

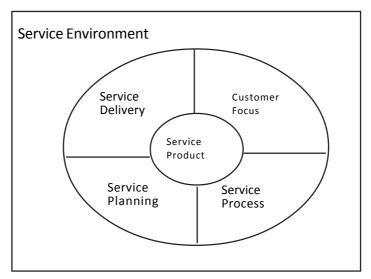
#### **SECURITY**

It assures that the service provided by the service provider will be secure

Among typical manufacturers, post-sale services (maintenance, repair and parts) account for less than 20 percent of revenue. But among the most innovative companies in service, those same activities often generate more than 50 percent of the profits.

# Components of services management

FIGURE 4.1 : Components of services management



The service product is whatever the organization transfers to the customer as marketable, the product for which the customer is ready to pay for. To transfer this product to the customer, the service organization must consider the following components.

#### **Service Planning**

The methodology of transferring the service has to be planned.

# **Service Delivery**

The way the service is being delivered plays a highly significant role in satisfying the customer in order to attract repeat sales. For ex. FlipKart has a user friendly product return policy that puts the buyers at ease. Hence the customer can order online without any hesitation. The behaviour of the person providing the service also plays vital role.

#### **Service Environment**

The environment in which is service is delivered forms the quality indicator of the service. Hotels must be kept clean. The waiters should be well dressed. The hospitals must be clean and hygienic. The schools and colleges must be in calm place with the big grounds.

#### **Customer Focus**

Dear learner, you have already come across the customer expectations. It shows you what customers expects from the service providers. Hence the service provider must have focus on the customers to understand their needs and strive to exceed their expectations.

65

#### **Service Process**

Many a times the service process is also quite important, a person receiving a haircut would observe how it is being done.

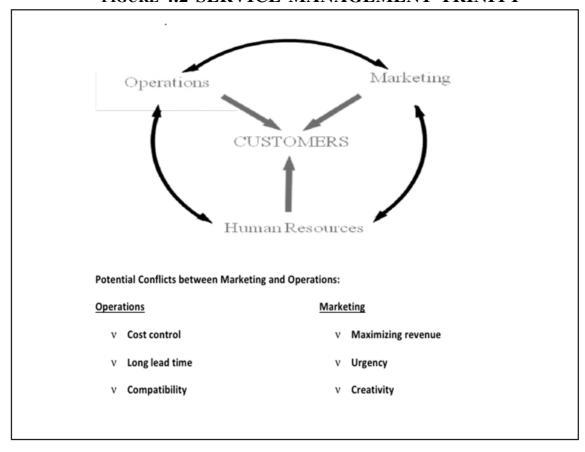
# **4.3 SERVICE MANAGEMENT TRINITY**

Trinity stands for a group of three closely related members. in services management, service management trinity deals with three closely related operations that are essential to make the service effective and efficient.

The three important groups in service management trinity are

- o Operations group
- o Marketing Group
- o HR Group

FIGURE 4.2 SERVICE MANAGEMENT TRINITY

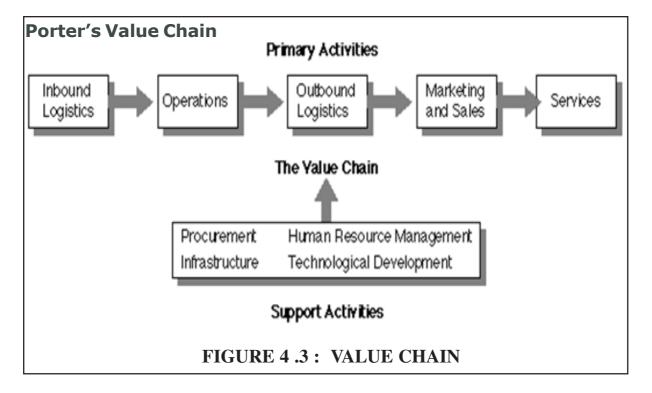


# **4.4 SERVICE VALUE CHAIN**

FIGURE 4.1: SERVICE MANAGEMENT FRINIH The value chain is a concept from business management that was first described and popularized by Michael Porter in his 19 85 best seller, Competitive Advantage Creating and sustaining superior Performance.

The Value chain categorizes the generic value adding activities of an organization. The primary activities include: inbound logistics, operations (production), outbound logistics, marketing and sales and services (maintenance). The support activities include administrative infrastructure management, human resource management, R & D and procurement. The cost and value drivers are identified for each value activity. The value chain framework quickly made its way to the forefront of management thought as a powerful analysis tools for strategic planning. Its ultimate goal is to maximize value creation while minimizing cost. The value chain assume significance in services management as it is a part of internal services management.

Value Chain Analysis describes the activities that takes place in a business and relates them to an analysis of the competitive strength of the business. Influential work by Michel Porter suggested that the activities of a business could be grouped under two heading i.e. Primary activities and supporting activities



The idea of the value chain is based on the process view of organizations, the idea of seeing a manufacturing (or service) organization as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources - money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits.

Most organizations engage in hundreds, even thousands, of activities in the process of converting inputs to outputs. These activities can be classified generally as either primary or support activities that all businesses must undertake in some form.

#### According to Porter (1985), the primary activities are:

- 1. Inbound Logistics involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.
- 2. Operations are all the activities required to transform inputs into outputs (products and services).
- 3. Outbound Logistics include all the activities required to collect, store, and distribute the output.
- 4. Marketing and Sales activities inform buyers about products and services, induce buyers to purchase them, and facilitate their purchase.
- 5. Service includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

# Secondary activities are:

- 1. Procurement is the acquisition of inputs, or resources, for the firm.
- 2. Human Resource management consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.
- 3. Technological Development pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.

4. Infrastructure - serves the company's needs and ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

#### **Steps in Value Chain Analysis**

Any business takes raw inputs, and add value to them by turning them into something of worth to other people. This is easy to see in manufacturing, where the manufacturer adds value by taking a raw material of little use to the end user (for example, wood pulp) and converting it into something that people are prepared to pay money for (e.g. paper). But this idea is just as important in service industries, where people use inputs of time, knowledge, equipment, and systems to create services of real value to the person being served – the customer. As you know, the customer can be an internal customer (with in the organization) or outside customer.

More value an organization creates, the more people will be prepared to pay a good price for the product or service, and the more they will keep on buying from organization. Hence finding out where the company is creating value is highly essential for the growth of the organization.

This is where the "Value Chain Analysis" tool is useful. Value Chain Analysis helps to identify the ways in which value is created for the customers, and then helps to think through how it can be maximized

#### **Value Chain Analysis is a three-step process:**

- 1. Activity Analysis: First, you identify the activities you undertake to deliver your product or service.
- 2. Value Analysis: Second, for each activity, you think through what you would do to add the greatest value for your customer.
- 3. Evaluation and Planning: Thirdly, you evaluate whether it is worth making changes, and then plan for action.

Let us follow these through one by one:

### Step 1 – Activity Analysis

The first step is to brainstorm the activities that the company undertakes that in some way contribute towards the customer's experience.

At an organizational level, this will include the step-by-step business processes that can be used to serve the customer. These will include marketing of products or services; sales and order-taking; operational processes; delivery; support; and so on

But this will also involve other things as well. For example:

- . How to recruit people with the skills to give the best service.
- · How to motivate yourself or your team to perform well.
- · How to keep up to date with the most efficient and effective techniques.
- · How to select and develop the technologies that give you the edge.
- · How to get feedback from your customer on how you're doing, and how you can improve further.

Once brainstorming of the activities which add value for company is completed, it has to be listed.

# **Step 2 – Value Analysis**

Now, for each activity identified, list the "Value Factors" – the things that customers value in the way that each activity is conducted.

For example, if you're thinking about a telephone order-taking process, your customer will value a quick answer to his or her call; a polite manner; efficient taking of order details; fast and knowledgeable answering of questions; and an efficient and quick resolution to any problems that arise.

If you're thinking about delivery of a professional service, your customer will most likely value an accurate and correct solution; a solution based on completely up-to-date information; a solution that is clearly expressed and easily actionable; and so on.

Next to each activity you've identified, write down these Value Factors.

And next to these, write down what needs to be done or changed to provide great value for each Value Factor.

# Step 3 – Evaluate Changes and Plan for Action

By the time value analysis is completed, the action be triggered: The members should generate plenty of ideas for increasing the value delivered to customers.

# 4.5 GAP MODEL

Delivering superior value to the customer is an ongoing concern of Product Managers. This not only includes the actual physical product but customer service as well. Products that do not offer good quality customer service that meets the expectations of consumers are difficult to sustain in a competitive market. SERVQUAL (service quality gap model) is a gap method in service quality measurement, a tool that can be used by Product Manager across all industries. The aim of this model is to:

- · Identify the gaps between customer expectation and the actual services provided at different stages of service delivery
- · Close the gap and improve the customer service

This model developed by Parasuraman, Zeithalm and Berry in 1985 identifies five different gaps:

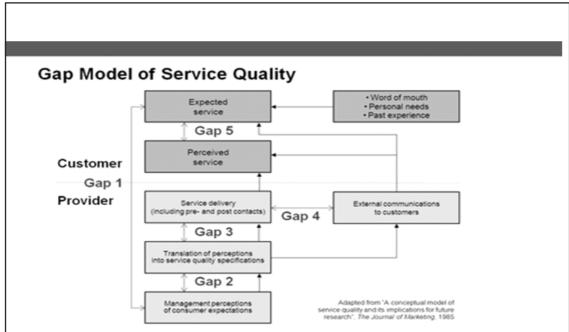


FIGURE 4.4: Gap Model Service quality

# **Gap-1** The Customer Gap: The Gap between Customer Expectations and Customer Perceptions

The customer gap is the difference between customer expectations and customer perceptions. Customer expectation is what the customer expects according to available resources and is influenced by cultural background, family lifestyle, personality, demographics, advertising, experience with similar products and information available online. Customer perception is totally subjective and is based on the customer's interaction with the product or service. Perception is derived from the customer's satisfaction of the specific product or service and the quality of service delivery. The customer gap is the most important gap and in an ideal world the customer's expectation would be almost identical to the customer's perception. In a customer orientated strategy, delivering a quality service for a specific product should be based on a clear understanding of the target market. Understanding customer needs and knowing customer expectations could be the best way to close the gap.

# **Gap-2** The Knowledge Gap: The Gap between Consumer Expectation and Management **Perception**

The knowledge gap is the difference between the customer's expectations of the service provided and the company's provision of the service. In this case, managers are not aware or have not correctly interpreted the customer's expectation in relation to the company's services or products. If a knowledge gap exists, it may mean companies are trying to meet wrong or non-existing consumer needs. In a customer-orientated business, it is important to have a clear understanding of the consumer's need for service. To close the gap between the consumer's expectations for service and management's perception of service delivery will require comprehensive market research.

# **Gap-3** The Policy **Gap:** The **Gap** between Management Perception and Service Quality Specification

According to Kasper et al, this gap reflects management's incorrect translation of the service policy into rules and guidelines for employees. Some companies experience difficulties translating consumer expectation into specific service quality delivery. This can include poor service design, failure to maintain and continually update their provision of good customer service or simply a lack of standardisation. This gap may see consumers seek a similar product with better service elsewhere.

# **Gap-4** The Delivery Gap: The Gap between Service Quality Specification and Service Delivery

This gap exposes the weakness in employee performance. Organisations with a Delivery Gap may specify the service required to support consumers but have subsequently failed to train

their employees, put good processes and guidelines in action. As a result, employees are ill equipped to manage consumer's needs. Some of the problems experienced if there is a delivery gap are:

- · Employees lack of product knowledge and have difficulty managing customer questions and issues
- · Organisations have poor human resource policies
- · Lack of cohesive teams and the inability to deliver

# **Gap-5 The Communication Gap: The Gap between Service Delivery and External Communications**

In some cases, promises made by companies through advertising media and communication raise customer expectations. When over-promising in advertising does not match the actual service delivery, it creates a communication gap. Consumers are disappointed because the promised service does not match the expected service and consequently may seek alternative product sources.

# **4.6 SERVICE MIX**

You might aware of marketing mix which includes four Ps such as Product, Price, Promotion and Place. This four elements paly a vital role product marketing. When it comes to services, the business has focus on additions three Ps such as Process, People and Physical evidence.

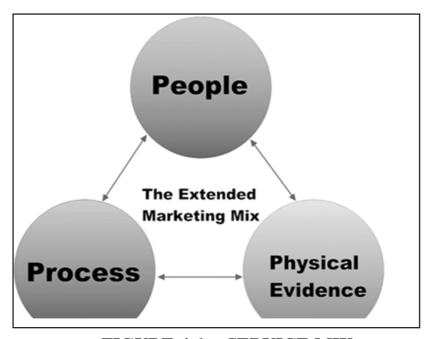


FIGURE 4.6: SERVICE MIX

# **People**

People are an essential ingredient in service provision; recruiting and training the right staff is required to create a competitive advantage. Customers make judgments about service provision and delivery based on the people representing your organisation. This is because people are one of the few elements of the service that customers can see and interact with. The praise received by the volunteers (games makers) for the London 2012 Olympics and Paralympics demonstrates the powerful effect people can create during service delivery.

Staff require appropriate interpersonal skills, aptititude, and service knowledge in order to deliver a quality service. In the UK many organisations apply for the "Investors in People" Accreditation to demonstrate that they train their staff to prescribed standards and best practices.

#### **Process**

This element of the marketing mix looks at the systems used to deliver the service. Imagine you walk into Bank and order a DD and you get it delivered within 2 minutes. What was the process that allowed you to obtain an efficient service delivery? Banks that send out Credit Cards automatically when their customers old one has expired again require an efficient process to identify expiry dates and renewal. An efficient service that replaces old credit cards will foster consumer loyalty and confidence in the company. All services need to be underpinned by clearly defined and efficient processes. This will avoid confusion and promote a consistent service. In other words processes mean that everybody knows what to do and how to do it.

# **Physical Evidence (Physical Environment)**

Physical evidence is about where the service is being delivered from. It is particularly relevant to retailers operating out of shops. This element of the marketing mix will distinguish a company from its competitors. Physical evidence can be used to charge a premium price for a service and establish a positive experience. For example all hotels provide a bed to sleep on but one of the things affecting the price charged, is the condition of the room (physical evidence) holding the bed. Customers will make judgments about the organization based on the physical evidence. For example if you walk into a restaurant you expect a clean and friendly environment, if the restaurant is smelly or dirty, customers are likely to walk out. This is before they have even received the service.

4.7	NOTES	

#### 4.8 SUMMARY

To certain extent managing services are more complicated then managing products, products can be standardized, to standardize a service is more difficult as there it can be affected by factors outside the service providers control. Hence the role of service management assumes a significant position in today's' marketing. To remain in the business as more competitive one has to conduct value chain analysis, analyze the gap between the customer expectations and the actual performance of the company.

The Service Marketing Mix involves Product, Price, Place, Promotion, People, Process and Physical Evidence. Firms marketing a service need to get each of these elements correct. The marketing mix for a service has additional elements because the characteristics of a service are different to the characteristics of a product.

# 4.9 KEY WORDS

Services management, services management trinity, Service value chain, Gap Model, Service Mix.

# 4.10 SELF ASSESSMENT QUESTIONS

- 1. Explain the concept of service management, state its nature
- 2. With diagram explain service management trinity
- 3. Examine the concept of service value chain
- 4. Identify the different gaps that occur in service delivery
- 6. Write a note on service mix

# 4.11 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. Services Management: An Integrated Approach, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.

- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management : Operations, Strategy, and Information Technology,* Bengaluru: McGraw-Hill, 2010.
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. Service Management and Operations. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.



Mukthagangothri, Mysore-570006

# DEPARTMENT OF STUDIES AND RESSEARCH IN MANAGEMENT

# M.B.A III SEMESTER

# **COURSE - 14**

# **SERVICES MANAGEMENT**

# **BLOCK**

2

# FINANCIAL SERVICES MANAGEMENT

Unit 5	
Banking Services Management	01-24
Unit 6	
Management of Insurance Services	25-37
Unit 7	
Management of Stock Market Services	38-49
Unit 8	
Management of Non-Banking Finacial services	50-58

Course Design and Editorial Committee	
Prof. D. Shivalingaiah	Prof. T.D.Devegowda
Vice-Chancellor & Chairperson	Dean (Academic)(I/C)& Convenor
Karanataka State Open University	Karnataka State Open University
Muktagangotri, Mysore – 570 006	Muktagangotri, Mysore – 570 006
Editors	Co- Editor and Subject Co-Ordinator
Dr. C. Mahadevamurthy	
Associate Professor and Chairman	
Dos & Research in Management,	
Karnataka State Open University,	
Mukthagangothri, Mysore – 570 006	
Course Writers	
Prof. M. Muninarayanappa	BLOCK - 2 (Units 5 to 8)
Professor Department of Commerce	

- ----

**Bangalore University** 

Central College Campus

Bangalore

# **Publisher**

#### Registrar

Karnataka State Open University, Mukthagangothri, Mysore - 6

# Developed by Academic Section, KSOU, Mysore- 6, 2016

All rights reserved. No part of this work may be reproduced in any form, by mimeograph or any other means, without permission in writing from the Karnataka State Open University.

Further information may obtained from the University's office at Muktagangotri, Mysore - 6

Printed and Published on behalf of Karnataka State Open University, Muktagangotri, Mysore - 6

#### **BLOCK -2 FINANCIAL SERVICES MANAGEMENT**

Dear Learner, in the previous module, you are introduced to the concept of services management. You have understood the concept of service and services management. I believe you have appreciated the contribution of services to the economy of India. The service encompasses a wide variety of works that gives satisfaction to the consumers They include banking, insurance, stock market, non banking financial institution, information and communication technology, business process outsourcing, tourism, education, travel and recreational services, marketing and other professional services, HR services to name a few. In this module let us try to concentrate on the financial services management. Let us understand the fundamental aspects of the various financial services that are offered in the market.

This module has been divided into 4 units. They include

Unit 5: Banking services Management- Management of Banking services, Banking products, services, features, challenges.

Unit 6- Management of Insurance service, Insurance service, Insurance Products, services, features, challenges,

Unit 7- Management of stock market services, depository participants, clearing corporations, stock brokers,

Unit 8- Management of Non-Banking services

# **UNIT 5 -: BANKING SERVICES MANAGEMENT**

# **Structure:**

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Financial Services
- 5.3 Meaning and definition of Banking product services:
- 5.4 Nature of banking services
- 5.5 Scope of banking services
- 5.6 Differences between bank and financial services:
- 5.7 Classification of Banking Products and Services
- 5.8 Features of banking services
- 5.9 Challenges of banking services
- 5.10 Notes
- 5.11 Summary
- 5.12 Key Words
- 5.13 Self Assessment Questions
- 5.14 References

#### 5.0 OBJECTIVES

After studying this unit, you should be able to:

- Provide an overview of Indian Financial system;
- > Define banking products and services;
- Explain the nature of banking services;
- ➤ Identify the features of banking services and
- ➤ Assess the challenges of banking sector.

#### 5.1 INTRODUCTION

The change and challenges in banking sector in the globalised economy enhanced the opportunities and threat to banking industries. Products and services have been increasing day by day. Fund based, non fund based services, e-banking services have made the banking industry more vulnerable to stiff competition from various sectors. The expectation of the customers from banking industry is tremendously increasing day by day, as such cost of rendering such services becomes obligated to incur. The banking and insurance industries have developed rapidly in the changing and challenging economic environment all over the world. Due to merging of global financial markets, development of new technologies, universalization of banking industries and with the expansion of non-banking activities, the insurance industry has globally brought in new channels of distribution into existence. Bancassurance is the allocation of insurance products through the huge network of banks whereby, banks act as a distribution channel for providing varieties of banking and investment products and services. You learn about management of banking products and services, management of insurance services, management of stock market services and management of Non-banking services.

#### 5.2 FINANCIAL SERVICES

Financial services are the economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, including credit unions, banks credit card companies, accountancy companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises, The below figures shows you an overview of financial services and its organization.

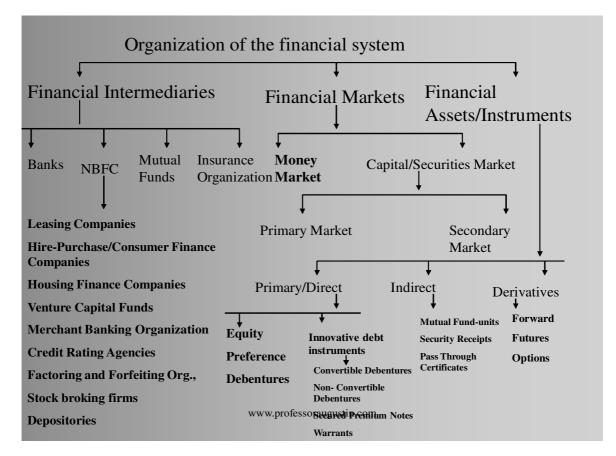


Figure 5.1 Organization of the financial system

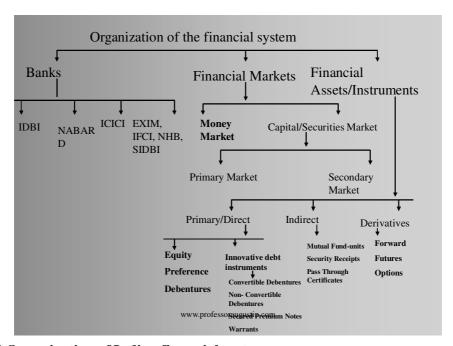


Figure 5.2 Organization of Indian financial system

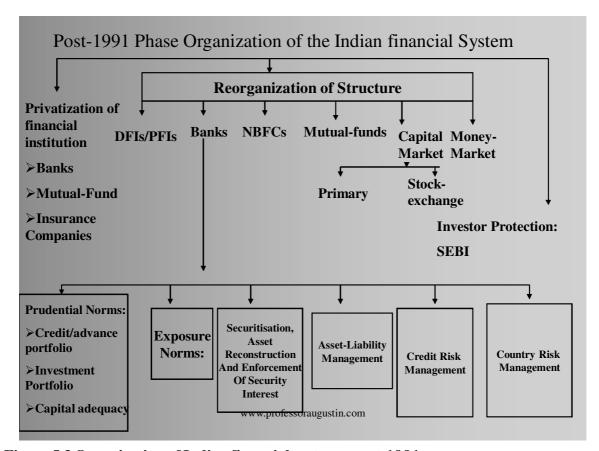


Figure 5.3 Organization of Indian financial system - post 1991

# 5.3 MEANING AND DEFINITION OF BANKING PRODUCT AND SERVICES

Meaning The banking service means the various ways in which a bank can help a customer, such as operating accounts, making transfers, paying standing orders and selling foreign currency etc.

Banking services are financial **services** that are the economic **services** provided by the finance industry, which encompasses a broad range of organizations that manage money, including credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, investment funds, etc.

#### 5.4 NATURE OF BANKING SERVICES

Banks safeguard money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier's checks. Banks also may offer investment and insurance products, which they were once prohibited from selling. As a variety of models for cooperation and integration among finance industries have emerged, some of

the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits.

There are several types of banks, which differ in the number of services they provide and the clientele they serve. Although some of the differences between these types of banks have lessened as they begin to expand the range of products and services they offer, there are still key distinguishing traits. Commercial banks, which dominate this industry, offer a full range of services for individuals, businesses, and governments. These banks come in a wide range of sizes, from large global banks to regional and community banks. Global banks are involved in international lending and foreign currency trading, in addition to the more typical banking services. Regional banks have numerous branches and automated teller machine (ATM) locations throughout a multi-state area that provide banking services to individuals. Banks have become more oriented toward marketing and sales. As a result, employees need to know about all types of products and services offered by banks. Community banks are based locally and offer more personal attention, which many individuals and small businesses prefer. In recent years, online banks—which provide all services entirely over the Internet have entered the market, with some success. However, many traditional banks have also expanded to offer online banking, and some formerly Internet-only banks are opting to open branches.

#### 5.5 SCOPE OF BANKING SERVICES

In India, the financial sector has become stronger in terms of capital and the number of customers. It has become globally competitive and diverse aiming, at higher productivity and efficiency. The scope of financial services are wider and broader from the point of view of customers.

#### Some Special Services provide by Private Banks are as follows:

- Net Banking
- Phone Banking
- ATM Booths are available everywhere
- Shopping can be done by Debit Card also
- Quick response to Customer problems

- Loans are easily available
- Account can be easily open at Rs.0
- Balance can be Rs.0 for long time
- Accounts can be maintain for long time.
- Insurance Facilities are available
- Provides better quality products and services
- Bank Executives help people to plan for their investments.
- Depository services
- Mortgage financing
- Securitisation

Because large number of players in various fields has been entered the market, competition will be intensified by mutual funds, post offices, Non Banking Finance Corporations (NBFCs) etc. from both domestic and foreign players. This would lead to increased sophistication and technology in the sector.

There are many challenges for the banking sector such as consumer satisfaction, technology, risk management, corporate governance etc. and they are redefining their priorities, which are now focused on cost reduction, product differentiation and customer centric services. Major players in this sector are HDFC, ICICI, HSBC, State Bank of India, Punjab National Bank, ABN Amro Bank, City Bank, etc.

# 5.6 DIFFERENCES BETWEEN BANK AND FINANCIAL SERVICES

There are many members of the financial services sector that are not banks, though. Investment agencies and stock market brokers are not banks, but they certainly provide financial services. Their services are only intermediate services, not end goods. This distinction is similar to how economists distinguish between capital goods and consumer goods; an orange can be a consumer good if it is directly eaten by a consumer, but it can also be a capital good if a Juice shop owner uses the orange to make juice.

In a more aggregate sense, the banking industry is most concerned with direct saving and lending while the financial services sector incorporates investments, insurance, the

redistribution of risk, and other activities. Banks earn revenue primarily on the difference in the interest rates charged for credit accounts and the rates paid to depositors. Financial services earn revenue through fees, commissions, and other methods.

#### 5.7 CLASSIFICATION OF BANKING PRODUCTS AND SERVICES

The following are banking products and services

# **Savings Account**

Any person can open a savings bank account. This helps the customers to deposit excess money thay have and withdraw whenever they need. They have the below features.

- No minimum Balance Requirement
- Internet Banking Avoid the queue or delays and try bank simple and secure Internet Banking facility for an unmatched online banking experience
- Customer Care Bank Customer Care service is always available to address customer queries
- Mobile Banking A quick, simple and convenient way to take command of customer bank account securely, anytime, anywhere
- Nomination Facility Customer may nominate a person as beneficiary to customers account proceeds.

#### **Fixed Deposits and Recurring Deposit**

Any person can deposit a lump sum amount in a fixed deposit and regularly deposit a fixed amount. Here money can be withdrawn only after a certain period. Usually the interest rate earned here is more than interest rate in Savings account.

#### Loans:

Further banks provide a variety of loans according to the requirements of the customers such as home loan, car loan. Vehicle loan, personal loan and so on. Few are explained here

#### **Home Loans**

Any person can avail home loans with the below features

• Dedicated team of experts to guide customer through the property purchase process

- Home Loan suited as per customer needs.
- Home Loan tenure up to 20 years
- Simplified documentation
- Doorstep delivery of Home Loan papers
- Loan approval even before the property is selected
- Insurance options to cover customer home loan at a competitive premium

#### **Car Loans**

- Get loans up to 90% of the ex-showroom price of the car
- Bank Car Loans offer attractive interest rates to ensure customer have a smooth drive
- New car loans are offered with fixed interest rates during the tenure of the loan
- Repayment of Car Loans tenure up to 60 months

#### **Foreign Exchange Services**

Experience utmost convenience and service excellence when customer choose Foreign Currency, Travellers Cheques and Travel Card for customer foreign exchange needs. Whether customer travel for holiday or for business, bank offer efficient solutions with the assurance of prompt delivery of foreign exchange at customer doorstep.

## **Demat Account**

Customer also can seamlessly access customer Demat Account by sending an SMS to enquire about customer Holdings, Transactions, Bill and ISIN details. Also receive SMS alerts for all debits/credits and benefit from bank competitive service charges that offer customer value for money.

With trading floors in more than 80 countries, clearing and custody networks in over 60 countries, and connections with 400 clearing systems, Bank's Institutional Clients Group maintains one of the largest global financial infrastructures and facilitates on average more than \$3 trillion of flows daily. This is what enables Bank to build enduring relationships with clients and serve them with distinction.

#### Innovation in banking sector and banking products and challenges

Banking industry in India has also achieved a new height with the changing times. Customer services and customer satisfaction are prime responsibilities of banks now days. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries. Technology offers a chance for banks to build new systems that address a wide range of customer needs including many that may not be imaginable today. Banking through internet has emerged as a strategic points for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labor intensive methods with automated processes thus leading to higher productivity and profitability. Financial innovation associated with technological change totally changed the banking philosophy and that is further tuned by the competition in the banking industry. Challenging business environment within the banking system create more innovation in the fields of product, process and market.

#### **ATM**

An automated teller machine (ATM) is a computerized telecommunications device that provides a financial institution's customers a secure method of performing financial transactions in a public space without a human clerk or bank teller. ATM can be interior (i.e., located in the branch premises) or exterior (located anywhere outside the branch premises). Banks need not obtain permission of the RBI for installation of ATMs at branches and extension counters for which they hold license issued by the Reserve Bank. They can also install offsite ATMs without RBI approval. However, they should obtain a license from the regional office of DBOD (Department of Banking Operations and Development) of RBI, before operationalizing the ATM, so as to be in conformity with section 23 of the Banking Regulation Act. The penetration of ATMs across the country increased in 2012-13 with the total number of ATMs crossing 1, 00,000, clocking a double digit growth during the year .

#### **Debit Card and Credit Card**

A debit card is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services. This removes the need for bank clients to go to the bank to remove cash from their account as they can now just go to an ATM or pay electronically at merchant locations. This type of card, as a form of payment, also removes the need for cheque as the debit card immediately transfers money from the client's account to the business account. There has been growth in issuance of debit and credit cards by public and private sector banks.

#### **NEFT**

According to Reserve Bank of India, National Electronic Funds Transfer (NEFT) is a nation-wide payment system to facilitate one-to-one funds transfer. Under NEFT, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. Individuals, firms or corporates maintaining accounts with a bank branch can transfer the funds under NEFT. Even individuals not having a bank account can deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50, 000/- per transaction. Such walk- in-customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even without having a bank account. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances.

#### **RTGS**

Real Time Gross Settlement system(RTGS), introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

There has been sustained growth in both the volume and value of all types of electronic transactions of SCBs in general and debit transactions in particular in recent years, a trend that continued in 2012-13 (Table 3). Both RTGS (meant for large value payments system, processing both customer and interbank transactions of Rs 2, 00,000 and above) and NEFT (a retail system) consistently posted double digit growth in terms of the volume of transactions routed through these system.

Table 1: Volume and value of electronic transaction by SCBs(2014-2015)

Type of transaction	Vol	ume	% change	Va	% change	
ECS Credit	121.5 122.2		0.6	1838	1771	-3.6
ECS Debit	165	177	7.2	834	1083	29.9
Credit card	320	397	23.9	966	1230	27.3
Debit card	328	469	43.2	534	743	39.1
NEFT	226	394	74.3	17904	29022	62.1

#### **Electronic payment services - E Cheques**

Nowadays bank are hearing about e-governance, e-mail, e-commerce, e-tail etc. In the same manner, a new technology is being developed for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger to the introduction of e-cheque, the Negotiable Instruments Act has already been amended to include; Truncated cheque and E-cheque instruments.

#### **Electronic funds transfer (EFT)**

Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc.( should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI (Reserve Bank of India) is the service provider of Electronic Funds Transfer (EFT)

#### Point of sale terminal

Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailers account is credited by the computer for the amount of purchase.

# Tele banking

Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

# 5.8 FEATURES OF BANKING SERVICES

Banking plays an important role in every country for their economic growth as well as currency factor. Majority Development for an country depends on banking sector as banks maintain the competition between currency of many of the developed and developing countries.

Banking involves following characteristics

- Dealing in money
- Acceptance of money deposits
- Payment and withdraws money
- Individual or companies

- Various branches
- Function increasing rapidly
- Business in banking sector
- Identification
- Facilities of advance money

# **Dealing in money**

All banks basically deals with money as they are financial institute where we links for our moneys exchanges we will either gave or deposit money in banks or will led/barrow money from banks for our requirement as per we need.

#### Acceptance of money deposits

All banks always works for their consumer satisfaction as a result they accepts money from all their customers in a way there they also gave an interest on deposited with the duration passed to money in bank. Banks deposits money from peoples & after that the protection of money is the responsibility of banks any misfortune happens to the consumers money will be returned by banks to customer within a given period of time.

## Payment and withdraws

A person who has deposit their money into bank can able to withdraw it at any time of instance. A customer can also able to easy payment & withdraw their money with the facilities of ATM, DRAFTS, MONEY ORDERS, CHEQUES etc.

# Individual or companies

Bank can be of any type it can be a company or firm or also an person which are involved in the business of money. This is also how banks are defined.

#### Various branches

An bank can also have multiple branches for the facility of their customers as every person cannot be able to go to the main branch of the Bank so banks further grows their own branches so that they can reach to each n every person.

#### **Functions increasing**

Banks always believe in developing of facilities for the customers so that they always increase their functions for working like developing latest ATM machines for the transactions

of money and also net banking by which will be able to buy & sell any item from the sitting in our comfort zone.

#### **Business in banking**

Banks do the business of money without any subsidiary business. There only responsibility is to satisfy their customers, this is also how banks define as they do the business of money interchanging from one hand to other.

#### **Identification**

Each bank has a unique name but having BANK name as common in all. which identifies the banks existence. people deals with different banks having different names but bank word in common in all of them.

### Facility of advance

Banks also give/led money to the people in a form of loan with minimum amount of interest. people which are not able to full fill there requirements at an instance of time which required a large amount of money at that time banks led money to them so that they full fill there requirements and returns back in small installment which are known as EMIs.

### Use of IT

With the globalization trends world over it is not an easy for any nation to remain isolated from what is happening around. For a country like India, which is one of the most promising emerging markets, such isolation is nearly impossible. More particularly in the area of Information technology, where India has definitely an edge over its competitors, remaining away or uniformity of the world trends is untenable. Financial sector in general and banking industry in particular is the largest spender and beneficiary from information technology. Banks today operate in a highly globalized, liberalized, privatized and a competitive environment.

In order to survive in this environment banks have to use IT. It is increasingly playing a significant role in improving the services in the banking industry. Indian banking industry has witnessed tremendous developments due to E-banking changes that are taking place in the information technology. Electronic banking has emerged from such an innovative development. IT has introduced new business paradigm. Today, technology is not only changing the environment but also the relationship with customers.

#### 5.9 CHALLENGES OF BANKING SERVICES

Over the past decade, the banking industry has witnessed many positive developments. The banking industry in India compares quite well with many of its international counterparts on metrics such as growth, NPAs, ROA, etc. Although the Indian banking industry has witnessed significant growth in last few years, comparatively lower levels of financial inclusion remains a concern. A large proportion of the population is still financially excluded, with the number of bank branches per one lakh (hundred thousand) adults being low (by global standards) at 9.4 branches. Further, the progress made during past decade is limited to a small part of the industry. While the onus for tackling the emerging challenges lie mainly with bank managements, a facilitating policy and regulatory framework will be critical for the further development of the banking industry. The following are some of the challenges faced by the Indian banking sector.

# 1. Increase penetration of banking in India-tackle demand supply mismatch

Primarily supply side constraints are responsible for the high levels of financial exclusion in the country, as they have a causal effect in keeping demand low from certain factions of the population. The demand supply mismatch, which is reflected in measures of financial exclusion, shows the limitations on the banks' ability to supply products and services.

A large proportion of the population in India, largely concentrated in rural areas is believed to be financially excluded from formalized credit markets (implies having access to bank credit) and payments systems (implies not having access to bank accounts). Inaccessible institutional credit drives these people to use the services of unorganized credit markets which charge interest at rates in the range of 35-60%. According to the Report of the Committee on Financial Inclusion (NABARD, 2008) and NSSO, 45.9 million farmer households in India do not have access to credit, even from noninstitutional sources. Only 27% of farmer households have loans from institutionalized sources, two-thirds of which also borrow from the unorganized sector. Among the urban poor class, financial exclusion level is not determined with certainty, since this population group is highly migratory. But, clearly, north eastern, eastern and central regions suffer more from financial exclusion than other regions of the country.

Many initiatives are being taken by the RBI and other banks in the country, notably public sector banks, to increase supply of financial services to the unbanked areas. Introduction of 'no frills' account (2005) and utilizing services of NGOs and other civil organizations for providing financial services (2006) are some steps in that direction. The

ability of banks to supply products and services is clearly reflected in the population being served by them per branch, or their physical presence geographically.

**Table 5.2 Population Serverd per Bank Branch ('000)** 

Foreign banks committed to making a play in India will need to adopt alternative approaches to win the "race for the customer" and build a value-creating customer franchise in advance of regulations potentially opening up post 2009. At the same time, they should stay in the game for potential acquisition opportunities as and when they appear in the near term. Maintaining a fundamentally long-term value-creation mindset will be their greatest challenge.

The Government of India has launched Jan-Dhan yoina in aug 2014 to tackle this problem. In this plan non account holders are allowed to open a zero balance acurent. on satisfactory operation of the acucrent, the holders are entitled to get a loan of 5000. This plan for financial inclusion was huge success and could attract many people.

plan for financial inclusion was huge success and could attract									
Year	1969*	FY81	FY91	FY01	FY07	FY08	FY09		
Population per Bank Branch	63	19	14	16	16	15	15		

: as at end June

ystem in India is to provide timely

industries, which are critical in generating employment and support the growth momentum of the economy. After witnessing robust growth between FY12-FY13, the growth in agriculture credit witnessed some moderation in FY14. Thus banks are required to ensure availability of credit to the agriculture sector, which forms the backbone of the Indian economy. With significant slowdown in economic activity and exports during the latter part of FY15, the credit growth to the micro and small experienced some moderation. While it is important for the banks to maintain the asset quality, they also need to direct the credit flow towards small and medium enterprises which play a critical role in India's economic development.

# 3. Maintain asset quality:

The secured advances made by banks have shown a mild decline in FY15. The unsecured advances of banks particularly of credit card receivables have increased substantially. In FY15, the quality of assets of banks has come under scrutiny, as the rising

interest rates started putting pressure on the repayment by borrowers in the H1 FY15. While the interest rates began to soften in the latter part of the fiscal, the risk of default persisted mainly due to slowdown in economic activity. Thus a major challenge in the current economic scenario for the Indian banks is to maintain the gains made with respect to asset quality over the past few years.

In such situations, unsecured advances possess greater risk to business. The sensitive sector advances is an important indicator towards the quality of assets held by banks. Though this does not in itself indicate a high risk, the higher exposure signals a greater need for monitoring by the banks as the susceptibility increases. This is of even greater importance in the current scenario when capital markets and real estate are extremely risky sectors. The exposures of SCBs to sensitive sectors have increased inexplicably from less than 3.5% to over 20% within a span of two years. New private sector banks have the highest exposure to sensitive sectors, largely due to the exposure in real estate.

## 4. Improve risk management mechanism

Strategies to combat the problem of high risk perception must be taken up by banks on priority basis. Increased usage of rating services must be employed to reduce risk. Besides, SME specific risk management procedures must be setup to make the business more viable, as the risk perception associated with lending to small enterprises is generally very high. Further, the banks would also be required to acquire skill for managing emerging risks resulting from innovations in financial products as well as technological advancements.

The availability and ease access to reliable data/information to both banks and regulators/supervisors of the banking system is a key for prudent risk management. Hence, strengthen the existing system would be another challenge for the banking industry. More over the recent global financial market turmoil has accentuated the need for further improvement in the transparency and disclosure standards.

#### 5. Technology adoption

The problem of resistance from workforce has largely been neutralized over the years, but the primary issue involved with the adoption and rapid integration of technological processes within banks still related to human resources- the availability of technically skilled resources is scarce. Technology is not among the core competencies of financial institutions, which

necessitates outsourcing. Banks in India are different from banks in many other countries, in ways that they have a very large branch network and varied needs specific to regions and customers. Most off the shelf solutions are not exactly in conformity to the needs of the banks, which makes room for large customizations.

Besides, a serious concern in implementing complex technologies is protection against frauds and hackings. Security concern slows down technology adoption significantly for the banking industry. A fast pace of development of security systems is imperative to the adoption of large scale innovations in the industry.

Another issue is that of business process reengineering, which is required after computerization. Failure to successfully carry out BPR neutralizes the benefits that an institution wishes to accomplish via adoption of a technological process.

5.10	NOTES						
		 	 	 ·	 	 	
		 ·	 	 	 	 	



#### 5.11 SUMMARY

The services sector is the most important sector, which contributes largely to the national economy. In India, the banking sector is an important component of this sector. The share of banking and insurance sector has burgeoned from 1980 – 81 till date. It has been so due to the increased significance of financial services in post – reforms era. In case of banking services, the varied service products being offered and their interface with the information technology has emerged as the potent tools of competition. The banks are using these tools to seize the markets and be the ultimate winners. The recent survey on banks shows that HDFC bank, which has been rated as the number 1 bank in India has quality growth as the main objective. Thus the banking intermediaries also have recently started focusing on the quality issues. In this context, the service quality perception among the customers of the banks is the most critical issue.

#### 5.12 KEY WORDS

Indian Financial system, organized and unorganized financial sector, Banking sector, term and fixed deposit,

# 5.13 SELF ASSESSMENT QUESTIONS

- 1. Explain various products and services of modern banking.
- 2. How does a bank manage products and services in the modern environment?
- 3. Explain fund based and non-fund based services.
- 4. Explain the following banking services:
  - a) Electronic payment services E Cheques
  - b) Real time gross settlement (RTGS)
  - c) Electronic funds transfer (EFT)
  - d) Automatic teller machine (ATM)

#### 5.14 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011

- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# **UNIT - 6: MANAGEMENT OF INSURANCE SERVICES**

# **Structure:**

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Insurance: Meaning and Definition
- 6.3 Nature and Characteristics of Insurance
- 6.4 Indian Insurance Industry
- 6.5 Insurance services and products
- 6.6 Challenges of Insurance sector
- 6.7 Bancassurance
- 6.8 Notes
- 6.9 Summary
- 6.10 Key Words
- 6.11 Self Assessment questions
- 6.12 References

## 6.0 OBJECTIVES

After studying this unit, you should be able to:

- ➤ Provide an overview of Indian Insurance industry;
- ➤ Define Insurance products and services;
- > Explain the nature of insurance services;
- ➤ Identify the features of insurance services and
- ➤ Assess the challenges of Insurance sector.

## 6.1 INTRODUCTION

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company.

Out of 28 non-life insurance companies, there are six public sector insurers, which include two specialised insurers namely Agriculture Insurance Company Ltd for Crop Insurance and Export Credit Guarantee Corporation of India for Credit Insurance. Moreover, there are 5 private sector insurers are registered to underwrite policies exclusively in Health, Personal Accident and Travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd.

In addition to 52 insurance companies, there is sole national re-insurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include licensed Agents (Individual and Corporate), Brokers, Common Service Centres, Web-Aggregators, Surveyors and Third Party Administrators servicing Health Insurance claims.

Let us have an overview of Indian insurance industry and gain an insight about the products and services as well as features and challenges.

#### 6.2 INSURANCE: MEANING AND DEFINITION

**Insurance:** In law and economics, Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer

is a company selling the insurance; an insured or policyholder is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a large, possibly devastating loss. The insured receives a contract called the insurance policy which details the conditions and circumstances under which the insured will be compensated.

General Insurance: Insuring anything other than human life is called general insurance. Examples are insuring property like house and belongings against fire and theft or vehicles against accidental damage or theft. Injury due to accident or hospitalisation for illness and surgery can also be insured. Your liabilities to others arising out of the law can also be insured and is compulsory in some cases like motor third party insurance.

#### **Definition of Insurance**

- Insurance is a cooperative form of distributing a certain risk over a group of persons who are exposed to it. Ghosh and Agarwal
- Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer's incurring the risk of paying a large sum upon a given contingency. Justice Tindall
- Insurance may be described as a social device whereby a large group of individuals, through a system of equitable contributions, may reduce or eliminate certain measurable risks of economic loss common to all members of the group. – Encyclopedia Britannic
- Insurance is an instrument of distributing the loss of few among many. Disnadl
- The collective bearing of risk is Insurance. W. Beverideges
- A provision which a prudent man makes against fortuitous or inevitable contingencies,
   loss or misfortune. Thomas
- Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured. Allen Z. Mayerson
- Insurance has been defined as a plan by which large numbers of peopleassociate themselves, to shoulders of all, risks attach to individuals. Magee D.H.

- Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contribution of all parties participating in the scheme. D.S. Hansell
- Insurance by lessening uncertainty, frees the individual from same element of risk. –
   Relph H. Wherry & Monroe Newman
- Insurance is purchased to offset the risk resulting from hazardous which exposes a personto loss. Robert I. Mehr and Emerson Cammack
- Insurance is a contract by which one party, for a compensation called the premium assumes particular risk of the other party and promises to pay to him or his nominee a certain or ascertainable sum of money on a specified contingency. E.W. Patterson

## 6.3 NATURE AND CHARACTERISTICS OF INSURANCE

The nature of Insurance can be summarized as given in the below points

## **Nature of Insurance**

- · Sharing of Risks
- Co-operative Device
- Valuation of Risk
- Payment made on contingency
- Amount of Payment
- Large Number of Insured Persons
- Insurance is not gambling
- Insurance is not charity

The characteristics of Insurance can be summarized as given in the below points

- It is a contract for compensating losses.
- Premium is charged for Insurance Contract.
- The payment of Insured as per terms of agreement in the event of loss.
- It is a contract of good faith.
- It is a contract for mutual benefit.
- It is a future contract for compensating losses.

- It is an instrument of distributing the loss of few among many.
- The occurrence of the loss must be accidental.
- Insurance must be consistent with public policy.

## 6.4 INDIAN INSURANCE INDUSTRY

The financial service industry has made significant changes after liberalisation and globalisation. Among all, insurance sector is also one of the important sectors in India. The Private and Public Players in insurance industry in India as insurance companies are mushrooming after liberalisation. Further, increase in the foreign direct investment from 26% to 49% shows that insurance business will grow in India but facing tough competition from rest of the world and specifically the Asian countries. Hence, there is a chance that there may be some difference observed in between the private and public insurance firms. With the entry of private players, the competition is becoming intense. In order to satisfy the customers, There is competition between the public and private companies to implement new creations and innovative product characteristics to attract customers.

Indian insurance industry has come a long way since the days of private dominance and Government monopoly in more than a century. The establishment of Insurance Regulatory and Development Authority in 1999 and subsequent entry of foreign and private players has changed the entire insurance landscape of the country. Professionalism and the technologies brought in by the foreign players have forced the hitherto sluggish and complacent players to devise their strategies from company-business-oriented to customersatisfaction-oriented (Hole and Misal, 2013) and that are progressive in nature. But unfortunately, most of the strategies are far more of survival than growth oriented.

Though, Besides other sectors, the Insurance sector also plays a vital role in the economic development of our nation by providing various useful services like mobilising savings, intermediating in finance, promoting investment, stabilising financial markets and managing both the social and financial risk. Despite its added advantages, India still lags behind other nations and considered as an under-insured country in the world. It has come a long way and made much strides since 2009, when it had the 18th position among Life Insurance markets and 28th in Non-Life Insurance markets. But, considering its ever growing population and demographic dividend, it has huge unexplored potential yet to be explored and harnessed. Even the establishment of IRDA and opening of markets have not helped in the growth of insurance penetration, except for the period during 2001 to 2009 when it rose from 2.71 per cent to 5.20 per cent. Since then, it declined to 3.96 per cent in 2012, which is much below the global average of 6.5 per cent of GDP. Density of insurance which rose from 11.50 in 2001 to 64.40 in 2010 also declined to 53.20 in 2012-13 and continues to decline even

today. This is due to the fall in the premium collections and the regulator tightening of the rules and decline in the household financial savings.

The Govt of India had launched Atal **pension yojana** which provides a minimum pension of Rs 1000 and max. Rs. 5000 per month after the age of 60 years. Around 15. 8.5 lakh people have registered for this by Feb 2016. Narendra Modi led government had also oftered Pradhan Mantri Jeevan Jyothi Bima yojana policy. This is a one year life insureance schem that ofters Rs 2 lakh in case of lossof life up to the age of 55 years at a premium of Rs 330/-. Over last year more than 9.2 crore pepole have enrolled for this scheme.

## 6.5 INSURANCE SERVICES AND PRODUCTS

#### **Term insurance**

Term plans are the most basic form of life insurance. They provide life cover with no savings / profits component. They are the most affordable form of life insurance as premiums are cheaper compared to other life insurance plans.

Online term insurance plans provide pure risk cover, which explains the lower premiums. A fixed sum of money - the sum assured – is paid to the beneficiaries if the policyholder expires over the policy term. If the policyholder survives, there is no pay out.

## **Endowment plans**

Endowment plans differ from term plans in one critical aspect i.e. maturity benefit. Unlike term plans which pay out the sum assured, along with profits, only in case of an eventuality over the policy term, endowment planspay out the sum assured under both scenarios – death and survival. However, endowment plans charge higher fees / expenses – reflected in premiums – for paying out sum assured, along with profits, in either scenario – death or maturity. The profits are an outcome of premiums being invested in asset markets – equities and debt.

## **Unit linked insurance plans (ULIP)**

ULIPs are a variant of the traditional endowment plan. They pay out the sum assured (or the investment portfolio if its higher) on death/maturity.

ULIPs differ from traditional endowment plans in certain areas. As the name suggests,

performance of ULIP is linked to markets. Individuals can choose the allocation for investments in stock/debt markets. The value of the investment portfolio is captured by the NAV (net asset value). To that end, there are many similarities between ULIPs and mutual funds. ULIPs differ in one area, they are a combination of investment and insurance, while mutual funds are a pure investment avenue

## Whole life policy

A whole life insurance policy covers a policyholder over his life. The main feature of a whole life policy is that the validity of the policy is not defined so the individual enjoys the life cover throughout his life. The policyholder pays regular premiums until his death, upon which the corpus is paid out to the family. The policy expiresonly in case of an eventuality as there is no pre-defined policy tenure.

## **Insurance Services**

Insurance is system by which the losses suffered by a few are spread over many, exposed to similar risks. Insurance is a protection against financial loss arising on the happening of an unexpected event. Insurance policy helps in not only mitigating risks but also provides a financial cushion against adverse financial burdens suffered.

Insurance policies cover the risk of life as well as other assets and valuables such as home, automobiles, jewelery.

The functions of Insurance can be bifurcated into two parts:

- Primary Functions
- Secondary Functions
- Other Functions

## **Primary Functions**

- **Provide Protection:** The primary function of insurance is to provide protection against future risk, accidents and uncertainty. Insurance cannot check the happening of the risk, but can certainly provide for the losses of risk. Insurance is actually a protection against economic loss, by sharing the risk with others.
- Collective Bearing of Risk:Insurance is a device to share the financial loss of few among many others. Insurance is a mean by which few losses are shared among larger

- number of people. All the insured contribute the premiums towards a fund and out of which the persons exposed to a particular risk is paid.
- Assessment of Risk:Insurance determines the probable volume of risk by evaluating various factors that give rise to risk. Risk is the basis for determining the premium rate also
- **Provide Certainty:**Insurance is a device, which helps to change from uncertainty to certainty. Insurance is device whereby the uncertain risks may be made more certain.

## **Secondary Functions**

- **Prevention of Losses:** Insurance cautions individuals and businessmen to adopt suitable device toprevent unfortunate consequences of risk by observing; installation of automatic sparkler or alarm systems, etc. Prevention of losses cause lesser payment to the assured by the insurer and this will encourage for more savings by way of premium. Reduced rate of premiums stimulate for more business and better protection the insured.
- Small Capital to cover Larger Risks: Insurance relieves the businessmen from security investments, by paying small amount of premium against larger risks and uncertainty.
- Contributes towards the Development of Larger Industries: Insurance provides opportunity to those larger industries having more risks in their setting up. Even the financial institutions may be prepared to give credit to sick industrial units which have insured their assets including plant and machinery.

#### Other Functions

- Means of Savings and Investment: Insurance serves as savings and investment, insurance is a compulsory way of savings and it restricts the unnecessary expenses by the insured's For the purpose of availing income-tax exemptions also, people invest in insurance
- Source of Earning Foreign Exchange: Insurance is an international business. The country can earn foreign exchange by way of issue of marine insurance policies and various other ways.
- **Risk Free Trade:** Insurance promotes exports insurance, which makes the foreign trade risk free with the help of different types of policies under marine insurance cover.

## **Brief History of Insurance Sector in India**

The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360-degree turn witnessed over a period of almost 190 years. The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta.

#### 6.6 CHALLENGES OF INSURANCE SECTOR

The prospects of Indian Public Sector General Insurance Industries are very bright, however, at the same time, the industry is facing various challenges and these could be summarized as under: Private insurance companies are entering the market every year. Therefore, the companies should carve out niche areas such that the threat of new entrants might not be an obstacle for them. There is also a chance that the big players might squeeze the small new entrants.

**Power of Suppliers** Those who are supplying the capital are not that big a threat. For instance, if someone as a very talented insurance underwriter is presently working for a small insurance company, there exists a chance that any big player willing to enter the insurance industry might attract that person off.

**Power of Buyers** No individual is a big threat to the insurance industry and big corporate houses have a lot more negotiating capability with the insurance companies. Big corporate clients like airlines and pharmaceutical companies pay millions of dollars every year in premiums.

## **Availability of Substitutes**

There exist a lot of substitutes in the insurance industry. The large insurance companies provide similar kinds of services – be it auto, home, commercial, health or life insurance. Besides this, other areas can be focused to grow and survive in the Indian Market Understanding Customer needs Understanding the customer better will allow insurance companies to design appropriate and-customized products, determine pricing correctly and increase profitability.

## **High-level Training and Development**

Ensure high levels of training and development not just for staff but also for agents and distribution organizations. Existing organizations will have to train staff for better service and flexibility, while all companies will have to train employees to cope with new products and an intensive use of information technology. Agent Relationship Build strong relationships with intermediaries such as agents.

## **Market Segmentation**

They must segment the market carefully to arrive at the appropriate products and pricing and should cater the needs of every individual. Revamped Marketing Strategy Worldwide, insurance products move along a continuum from pure service products to pure commodity products then they could be sold through the medical shops, groceries, novelty stores etc. Once commodization, popularity and awareness of the products are attained then the products can move to remote channels such as the telephone or direct mail. Brand loyalty could shift from the insurer to the seller.

## 6.7 BANCASSURANCE

The banking and insurance industries have developed rapidly in the changing and challenging economic environment all over the world. Due to merging of global financial markets, development of new technologies, universalization of banking industries and with the expansion of non-banking activities, the insurance industry has globally brought in new channels of distribution into existence. This has given rise to a new form of business wherein two big financial institutions have come together and have integrated all their strength and efforts to generate new means of marketing for encouraging their products and services. The growing global insurance industry has brought new channels of distribution into existence, leading to a new concept called Bancassurance. Nowadays banks have started increasing their business to securities and insurance and other sectors by adding new range of products. Bancassurance, one such concept, has gained recognition in the recent years. The growth of bancassurance depends on how well banks and insurance companies are able to conquer the operational challenges that are frequently thrown at them. Banks aims at a comprehensive Bancassurance Management with Core Banking platform ie; ease of premium payments using Auto Debit Cards, Net Banking, collection agencies etc.

## **Features of Bancassurance**

- 1. Bancassurance is the allocation of insurance products through the huge network of banks whereby, banks act as a distribution channel for providing varieties of banking and investment products and services. According to Insurance Regulatory and Development Authority (IRDA), "Bancassurance refers to banks acting as corporate agents for insurers to distribute insurance products".
- 2. Bancassurance offers many advantages to banks, insurers and the customers. For the banks, income from Bancassurance is the only non-interest based income.

3.		cal reach without additional costs. the customers improves customer
6.8	NOTES	

## 6.9 SUMMARY

**Insurance** is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An insurer, or insurance carrier (often called an "insurance company), is sells the insurance policy to customers. The customers, who are called the insured or policyholder, are the person or entity (which may be a private company or other organization) buying the insurance policy. The amount of money to the customer pays for a certain amount of insurance coverage is called the "premium". Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

The transaction involves the insured making a payment to the insurer in exchange for the insurer's promise to compensate (indemnity) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

In the event that the insured experiences a financial or personal loss which is covered by the insurance policy, the insured makes an insurance claim to the insurer. Insurance company claims adjusters and other insurance company employees assess the claim. Insurance policies typically set out certain circumstances or actions which will void the insurance policy; if the insurance policy is voided, then the insurer may not have to pay out the claim

In this unit we have discussed about nature, characteristic and future of Indian insurance industry. We have also described the challenges of insurance industry and gained insight about various products and services of insurance companies.

## 6.10 KEY WORDS

Insurance, life and non life insurance, Bancassurance, challenges,

## 6.11 SELF ASSESMENT QUESTIONS

- 1. Explain various products and services of insurance
- 2. Explain the challenges in insurance sector
- 3. Explain management of insurance in banking industry.
- 4. Give an overview of Indian insurance industry

## 6.12 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# UNIT - 7: MANAGEMENT OF STOCK MARKET SERVICES

## **Structure:**

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Financial Markets
- 7.3 Capital market
- 7.4 Stock Market
- 7.5 Dematerialisation and Depositories
- 7.6 Clearing Houses
- 7.7 Stock Brokers
- 7.8 Notes
- 7.9 Summary
- 7.10 Key Words
- 7.11 Self Assessment Questions
- 7.12 References

## 7.0 OBJECTIVES

After Studying this unit, you should be able to:

- Provide an overview of Indian financial market;
- > Explain capital market;
- > Discuss the key features of Indian stock market and
- ➤ Give an account on clearing Houses.

## 7.1 INTRODUCTION

You know that a business needs finance from the time an entrepreneur makes the decision to start it. It needs finance both for working capital requirements such as payments for raw materials and salaries to its employees, and fixed capital expenditure such as the purchase of machinery or building or to expand its production capacity. The above example gives a fair picture of why companies need to raise funds from the capital markets. Idea Cellular decided to enter the Indian capital market for its needs of expansion. Business can raise these funds from various sources and in different ways through financial markets. This unit provides a brief description of the mechanism through which finances are mobilized by a business organisation for both short term and long term requirements. It also explains the institutional structure and the regulatory measures for different financial markets.

## 7.2 FINANCIAL MARKETS

A business is a part of an economic system that consists of two main sectors – households which save funds and business firms which invest these funds. A financial market helps to link the savers and the investors by mobilizing funds between them. In doing so it performs what is known as an allocative function. It allocates or directs funds available for investment into their most productive investment opportunity.

When the allocative function is performed well, two consequences follow:

- The rate of return offered to households would be higher.
- Scarce resources are allocated to those firms which have the highest productivity for the economy.

There are two major alternative mechanisms through which allocation of funds can be done: via banks or via financial markets. Households can deposit their surplus funds with banks, who in turn could lend these funds to business firms. Alternately, households can buy

the shares and debentures offered by a business using financial markets. The process by which allocation of funds is done is called financial intermediation. Banks and financial markets are competing intermediaries in the financial system, and give households a choice of where they want to place their savings.

Financial Market is divided into money market and capital market

**Money market** The money market is a market for short term funds which deals in monetary assets whose period of maturity is upto one year. These assets are close substitutes for money.

Capital market refers to facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested.

## 7.3 CAPITAL MARKET

As already defined the term capital market refers to facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested. It consists of a series of channels through which savings of the community are made available for industrial and commercial enterprises and for the public in general. It directs these savings into their most productive use leading to growth and development of the economy. The capital market consists of development banks, commercial banks and stock exchanges.

An ideal capital market is one where finance is available at reasonable cost. The process of economic development is facilitated by the existence of a well functioning capital market. In fact, development of the financial system is seen as a necessary condition for economic growth. It is essential that financial institutions are sufficiently developed and that market operations are free, fair, competitive and transparent. The capital market should also be efficient in respect of the information that it delivers, minimise transaction costs and allocate capital most productively.

The Capital Market can be divided into two parts:

- a. Primary Market
- b. Secondary Market

The **primary market** is also known as the new issues market. It deals with new securities being issued for the first time. The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals.

The **secondary market** is also known as the stock market or stock exchange

## 7.4 STOCK MARKET

The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities. It also contributes to economic growth by channelising funds towards the most productive investments through the process of disinvestment and reinvestment. Securities are traded, cleared and settled within the regulatory framework prescribed by SEBI. Advances in information technology have made trading through stock exchanges accessible from anywhere in the country through trading terminals. Along with the growth of the primary market in the country, the secondary market has also grown significantly during the last ten years.

## **Stock Exchange**

A stock exchange is an institution which provides a platform for buying and selling of existing securities. As a market, the stock exchange facilitates the exchange of a security (share, debenture etc.) into money and vice versa. Stock exchanges help companies raise finance, provide liquidity and safety of investment to the investors and enhance the credit worthiness of individual companies.

## Meaning of Stock Exchange

According to Securities Contracts (Regulation) Act 1956, stock exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities. Functions of a Stock Exchange The efficient functioning of a stock exchange creates a conducive climate for an active and growing primary market for new issues. An active and healthy secondary market in existing securities leads to positive environment among investors.

## **Functions of stock Exchange**

The following are some of the important functions of a stock exchange.

- 1. Providing Liquidity and Marketability to Existing Securities: The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market.
- 2. Pricing of Securities: Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.

- 3. Safety of Transaction: The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.
- 4. Contributes to Economic Growth: A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth.
- 5. Spreading of Equity Cult: The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.
- 6. Providing Scope for Speculation: The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market.

## 7.5 DEMATERIALISATION AND DEPOSITORIES

All trading in securities is now done through computer terminals. Since all systems are computerised, buying and selling of securities are settled through an electronic book entry form. This is mainly done to eliminate problems like theft, fake/forged transfers, transfer delays and paperwork associated with share certificates or debentures held in physical form. This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that she/he can hold it as an electronic balance in an account.

This process of holding securities in an electronic form is called dematerialisation. For this, the investor has to open a demat account with an organisation called a depository. In fact, now all Initial Public Offers (IPOs) are issued in dematerialisation form and more than 99% of the turnover is settled by delivery in the demat form. The Securities and Exchange Board of India (SEBI) has made it mandatory for the settlement procedures to take place in demat form in certain select securities.

Holding shares in demat form is very convenient as it is just like a bank account. Physical shares can be converted into electronic form or electronic holdings can be reconverted into physical certificates (rematerialisation). Dematerialisation enables shares to be transferred to some other account just like cash and ensures settlement of all trades through a single account in shares.

These demat securities can even be pledged or hypothecated to get loans. There is no danger of loss, theft or forgery of share certificates. It is the broker's responsibility to credit the investor's account with the correct number of shares.

Depository just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/ sold at any time and instruction to deliver or receive shares on behalf of the investor can be given. It is a technology driven electronic storage system.

It has no paper work relating to share certificates, transfer, forms, etc. All transactions of the investors are settled with greater speed, efficiency and use as all securities are entered in a book entry mode. In India, there are two depositories. National Securities Depositories Limited (NSDL) is the first and largest depository presently operational in India. It was promoted as a joint venture of the IDBI, UTI, and the National Stock Exchange.

The Central Depository Services Limited (CDSL) is the second depository to commence operations and was promoted by the Bombay Stock Exchange and the Bank of India. Both these national level depositories operate through intermediaries who are electronically connected to the depository and serve as contact points with the investors and are called depository participants.

The depository participant (DP) serves as an intermediary between the investor and the Depository (NSDL or CSDL) who is authorised to maintain the accounts of dematerialised shares. Financial institutions, banks, clearing corporations, stock brokers and nonbanking finance corporations are permitted to become depository participants. If the investor is buying and selling the securities through the broker or the bank or a non-banking finance corporation, it acts as a DP for the investor and complete the formalities.

## Advantages of a depository services:

Trading in **demat** segment completely eliminates the risk of bad deliveries. In case of transfer of electronic shares, you save 0.5% in stamp duty. Avoids the cost of courier/notarization/ the need for further follow-up with your broker for shares returned for company objection .No loss of certificates in transit and saves substantial expenses involved in obtaining duplicate certificates, when the original share certificates become mutilated or misplaced.

Lower interest charges for loans taken against demat shares as compared to the interest for loan against physical shares. RBI has increased the limit of loans availed against dematerialized securities as collateral to Rs 20 lakh per borrower as against Rs 10 lakh per borrower in case of loans against physical securities. RBI has also reduced the minimum margin to 25% for loans against dematerialized securities, as against 50% for loans against physical securities.

## 7.6 CLEARING HOUSES

A clearing house is the common ground between two firms, often called participant firms or clearing firms. The idea is to lower the risk that one of the parties will fail in its obligation during a trade

## Working of cleariny House

Many exchanges and OTC markets have clearing houses designed to help smooth transactions, and make sure they settle. Participants make collateral/margin deposits to help ensure that there is enough capital for the clearing house to operate properly.

Once a trade is executed between two parties (usually a buyer and a seller in the most basic cases), the clearing house steps in. The trade title is transferred to the clearing house, using a process known as novation. This process means that the clearing house takes on the legal counterparty risk associated with the transaction. This means that the clearing house can help ensure that the trade goes through, since it is now responsible for the trade. If one of the parties fails, it's not as big a deal because the clearing house is now responsible.

A clearing house can help effectively isolate the negative effects from a failing market participant, and limit the spread of problems. If a clearing firm fails, and a settlement failure is the result, the guarantee funds at a clearing house can usually settle the transactions on behalf of the failing clearing firm. However, before the guarantee funds need to be used, clearing houses can often utilize default procedures against a failing clearing firm.

It sounds like the process is a long one, but in reality it's possible for a clearing house to settle transactions in a matter of seconds. On highly liquid markets, these transactions take place in a fraction of a second. However, there are some transactions, especially in the OTC markets, that can take days to settle.

It's important to realize, though, that a clearing house doesn't have to be a third party. In some cases, brokers are their own clearing houses. Fidelity is one that uses its own clearing house, National Financial Services LLC. Wells Fargo, TD Ameritrade, E\*TRADE, and

Scottrade are also self clearing. Pay attention to the clearing house, and consider that as you choose a brokerage.

You should also realize that some brokers use the same clearing house. Apex Clearing is used by a few brokerages, including TradeKing, Zecco, Options House, Firstrade, and eOption all use Apex. Even Scottrade turns to Apex to take care of advanced options trades. Understand that if one broker uses the same clearing house as another, one isn't going to be faster than another.

## Other Functions of a Clearing House

A clearing house doesn't just settle transactions, though. It can serve as an independent third party in other ways. Clearing houses can offer valuation services. Additionally, they can also keep tabs on clearing firms, and their creditworthiness. Clearing houses are designed to help limit wider market risk, and, in general, they do — as long as the parties trading use them.

Indeed, after the recent financial meltdown, many people pointed to the fact that credit default swaps weren't traded on exchanges, and that clearing houses weren't used, as one of the issues. Since then, efforts have been put into place to make the process more transparent, and to create an exchange. Additionally, at least one clearing house (Options Clearing Corporation) has expressed an interest in backing equity derivatives as a way to prevent future problems.

## 7.7 STOCK BROKERS

A stockbroker is an individual / organization who are specially given license to participate in the securities market on behalf of clients. The stockbroker has the role of an agent. When the Stockbroker acts as agent for the buyers and sellers of securities, a commission is charged for this service.

As an agent the stock broker is merely performing a service for the investor. This means that the broker will buy for the buyer and sell for the seller, each time making sure that the best price is obtained for the client.

An investor should regard the stockbroker as one who provides valuable service and information to assist in making the correct investment decision. They are adequately qualified to provide answers to a number of questions that the investor might need answers to and to assist in participating in the regional market. The investor must know the following points about stock brokers.

## 1. Stock Brokers are governed by any Rules and Regulations

Stock brokers are governed by SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India [SEBI (Stock brokers and Sub brokers) Rules and Regulations, 1992], Rules, Regulations and Bye laws of stock exchange of which he is a member as well as various directives of SEBI and stock exchange issued from time to time. Every stock broker is required to be a member of a stock exchange as well as registered with SEBI. Examine the SEBI registration number and other relevant details can be found out from the registration certificate issued by SEBI.

## 2. Display of Registration

Every broker displays registration details on their website and on all the official documents. You can confirm the registration details on SEBI website. The SEBI website provides the details of all registered brokers. A broker's registration number begins with the letters "INB" and that of a sub broker with the letters "INS".

## 3. Documents to be issued to the broker

Before start of trading with a stock broker, you are required to furnish your details such as name, address, proof of address, etc. and execute a broker client agreement. You are also entitled to a document called 'Risk Disclosure Document', which would give you a fair idea about the risks associated with securities market. You need to go through all these documents carefully.

#### Sub Brokers

According to the BSE website – "Sub-broker" means any person not being a member of a Stock Exchange who acts on behalf of a member-broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such member-brokers.

All Sub-brokers are required to obtain a Certificate of Registration from SEBI without which they are not permitted to deal in securities. SEBI has directed that no broker shall deal with a person who is acting as a sub-broker unless he is registered with SEBI and it shall be the responsibility of the member-broker to ensure that his clients are not acting in the capacity of a sub-broker unless they are registered with SEBI as a sub-broker.

It is mandatory for member-brokers to enter into an agreement with all the sub-brokers. The agreement lays down the rights and responsibilities of member-brokers as well as sub-brokers.

#### Stock Brokers In India.

There are a number of broking houses all over India. Many of them have International presence too. Following are some of the leading Stock Broking firms in India.

- IndiaInfoline
- ICICIdirect
- Share khan
- India bulls
- Geojit Securities
- HDFC
- Reliance Money
- Religare
- Angel Broking

Investors have to check the broker's terms and conditions and decide about opening a trading account. Only government tax rates like, security transaction tax, stamp duty and service tax are uniform other charges like brokerage for delivery trades, intraday trades, minimum transaction charge, statement charges, DP charges, annual maintenance charges etc., may vary from one broker to another.

7.8	NOTES								
				 					,

7.9	SUMMA	RY				
			 	 	<del></del>	· · · · · · · · · · · · · · · · · · ·
			 	 		, , , , , , , , , , , , , , , , , , , ,
			 	 		<del></del> -
			 	 		·
			 	 	<del></del>	· · · · · · · · · · · · · · · · · · ·
			 	 	<del></del> -	

Financial Market is a market for creation and exchange of financial assets. It helps in mobilisation and channelising the savings into most productive uses. Financial markets also helps in price discovery and provide liquidity to financial assets. Money Market is a market for short-term funds. It deals in monetory assets whose period of maturity is less than one year. The instruments of money market includes treasury bills, commercial paper, call money, Certificate of deposit, commercial bills, participation certificates and money market mutual funds. Capital Market is a place where long-term funds are mobilised by the corporate undertakings and Government. Capital Market may be devided into primary market and secondary market. Primary market deals with new securities which were not previously tradable to the public. Secondary market is a place where existing securities are bought and sold. Stock Exchanges are the organisations which provide a platform for buying and selling of existing securities. Stock exchanges provide continuous market for securities, helps in price discovery, widening share ownership and provide scope for speculation.

## 7.10 KEY WORDS

Financial Market, Money Market, Mutual Fund, Capital Market, Primary Market, Secondary Market, Stock Exchange

## 7.11 SELF ASSESSMENT QUESTIONS

- 1. Give an overview of a financial market
- 2. Distinguish between Capital Market and Money Market.
- 3. What are functions of Depository Participants?
- 4. Write a note on stock brokers
- 5. What are the functions of a Stock Exchange?

## 7.12 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*

# UNIT - 8: MANAGEMENT OF NON-BANKING FINANCIAL SERVICES

## **Structure:**

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Non Banking Financial Institutions
- 8.3 Types of NBFCs
- 8.4 Significance of NBFCs in India
- 8..5 Future Prospects of NBFC Sector
- 8.6 Notes
- 8.7 Summary
- 8.8 Key Words
- 8.9 Self Assessment Questions
- 8.10 References

## 8.0 OBJECTIVES

After studying this unit, you should be able to:

- > Define NBFC and state its meaning;
- ➤ Give a classification of NBFCs in India;
- > Explain the functions and services provided by NBFCs and
- > Describe the significance of NBFC in India.

## 8.1 INTRODUCTION

Non Banking Finance Institutions is a constituent of the institutional structure of the organized financial system in India. The Financial System of any country consists of financial markets, financial intermediation and financial instruments or financial products. All these items facilitate transfer of funds and are not always mutually exclusive. Interrelationships between these are a part of the system e.g. Financial Institutions operate in financial markets and are, therefore, a part of such markets.

The word system, in the term financial system, implies a set of complex and closely connected or inter-linked Institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The Financial Intermediaries in the Financial System can broadly be said to comprise of:

Banks; and

· NBFCs

NBFCs can be further classified into different types depending on their nature of business. Further, total Finance sector in India may be classified into Formal and Informal Finance sector. The informal sector of finance may be said to refer to all economic activities that fall outside the formal sector that is regulated by economic and legal institutions e.g money lenders, some channels of micro finance and the other not necessarily regulated sectors. Landlords, local shopkeepers, traders, suppliers and professional money lenders, and relatives are the informal sources of microfinance for the poor, both in rural and urban areas. The Formal sector can be said to comprise of the Formal and necessarily regulated channels of financing like, finance provided by Banks, Financial Institutions, non-Banking Financial Institutions, and Micro finance institutions.

Let us have an overview of these NBFC and the services provided by them in this unit.

## 8.2 NON BANKING FINANCIAL INSTITUTIONS

In most countries, the financial system extends beyond traditional banking institutions to include Non Banking Financial Intermediaries like insurance companies, mutual funds, market makers and other financial service providers. There has been tremendous growth worldwide in the mobilization of financial resources outside traditional banking systems. Channeled mainly through capital markets, such rapid financial diversification is posing new challenges for regulators in many emerging markets. These non-banks financial institutions provide services that are not necessarily suited to banks, serve as competition to banks, and specialize in sectors or groups. Having a multi-faceted financial system, which includes non-bank financial institutions, can protect economies from financial shocks.

However, in developing countries that lack a coherent policy framework and effective regulations, non-bank financial institutions can exacerbate the fragility of the financial system.

#### To summarize:

- NBFIs have much to contribute, but they also bring some risks;
- Those risks are best contained by sound regulation that seeks to create a generally level playing field, without stifling either the growth or individuality of NBFIs;
- These objectives notwithstanding, NBFI regulation is generally underdeveloped throughout most of the world;
- The three areas in which improvements are most needed are:
  - 1. In the legal powers granted to NBFI regulators
  - 2. In the prudential standards, regulations and rules which, in general, need to become more risk-based to catch up with banking standards;
  - 3. In the internal practices and processes of regulators where there is a general need for stronger governance standards and for a greater commitment to enforcement among prudential regulators and conduct regulators alike.

#### **Definitions**

Any institution which is not a bank but is involved in finance

- Financial institutions not taking demand deposits
- Financial institutions not taking any deposit

NBFIs are different types of financial institutions that provide the following types of services:

- Payments
- Liquidity / credit
- Divisibility: break up large denomination and aggregate small denomination
- Store of value
- Information: processing and assessing risks
- Risk pooling: lower the risks of investors Many NBFI provide services that are also provided by banks, hence the distinction between banks and NBFI has become blurred. Many NBFI belong to supervised conglomerates (or conglomerates that should be supervised)

## 8.3 TYPES OF NBFCS

NBFIs can be classified by the main services they provide:

- Deposit taking institutions (e.g Thrifts, credit unions, savings& loans.)
- Risk-pooling institutions (e.g insurance co.)
- Contractual savings institutions (e.g Mutual funds, pension funds, other investment institutions)
- Market makers (e.g Investment banks, stockbrokers.)
- Specialized sectoral financiers (e.g leasing companies, real state finance co., micro-finance institutions.)
- Financial service providers (e.g Brokers, investment advisers.)

The Non-Banking Finance Companies operating in India fall in the following broad categories.

(1) Equipment Leasing Company is a company which carries on as its principal business, the business of leasing of equipments or the financing of such activity. Apart from their Net Owned Funds (NOF), the leasing companies raise finds in the form of deposits from other companies, banks and the financial institutions.

Public deposits and inter-corporate deposits account for 74 percent of their total funds. Leasing is a form of rental system. A lease is a contractual arrangement whereby the lessor grants the lessee the right to use an asset in return for periodical lease-rent payments.

There are two types of leasses

- (i) operating lease, and
- (ii) financial or capital lease.

The operating lease is a short-term lease which can be cancelled. Financial lease is a non-concealable contractual commitment.

- (2) **Hire Purchase Finance Company** is a company which carries on as its principle business, hire purchase transactions or the financing of such transactions. The sources of hire-purchase finance are
  - (i) Hire purchase Finance Companies.
  - (ii) Retails and Wholesale Traders.
  - (iii) Bank and Financial Institutions.

Hire-purchase finance or credit is a system under which term loans for purchase of goods, producer goods or consumer goods and services are advanced which have to be liquidated under an installment plan. The period of credit is generally one to three years. The hire purchase credits available for a wide range of products and services. Hire-purchase finance companies are the public or private limited companies or partnership firms engaged in giving credit for acquiring durable goods.

- (3) Housing Finance Company is a company: which carries on as its principle business, the financing of the acquisition or construction of houses including the acquisition or development of plots of lands for construction of houses. These companies are supervised by National Housing Bank, which refinances housing loans by scheduled commercial banks, co-operative banks, housing finance companies and the apex co-operative housing finance societies.
- (4) Investment Company means any company which carries on as its principle business the acquisition of securities. These types of companies are investment holding companies formed by business houses. As such they provide finance mainly to companies associated with these business houses.

As compare to open-end investment companies or mutual funds/units trust, these investment companies are close end companies having a fixed amount of share capital. Almost all prominent industrial groups have their own investment companies.

(5) Loan Company is a company which carries on as its principle business, the providing of finance whether by making loans or advances or otherwise for any activity other than its

own. (This category excludes No.1 to No. 3 above categories).

These types of companies are generally small partnership concerns which obtain funds in the form of deposits from the public and give loans to wholesale and retail traders, small scale industries and self-employed persons. These companies collect fixed deposits from the public by offering higher rates of interest and give loans to others at relatively higher rates of interest.

(6) Mutual Benefit Finance Company (i.e. Nidhi Company) means any company which is notified by the Central Government under section 620A of the Companies Act, 1956. The main sources of funds for nidhis are share capital, deposits from their members and deposits from the public.

Nidhis give, loans to their members-for several purposes like marriages, redemption of old debts, construction and etc. The nidhis normally follow the easy procedures and offer saving schemes and make credits available to those whose credit needs remain unmet by his commercial banks.

(7) Chit Fund Company is a company which collects subscriptions from specified number of subscribers periodically and in turn distributes the same as prizes amongst them. Any other form of chit or kuri is also included in this category. The chit fund companies operations are governed by the Chit Fund Act, 1982, which is administered by State Governments. Their deposit taking activities are regulated by the Reserve Bank.

The chit fund companies enter into an agreement with the subscribers that everyone of them shall subscribe a certain amount in installments over a definite period and that every one of such subscriber shall in his turn, as determined by lot or by auction or by tender, be entitled to a prize amount.

(8) **Residuary Non-Banking Company** is a company which receives deposits under any scheme by way of subscriptions/contributions and does not fall in any of the above categories.

There are few unhealthy features of the operations of these companies; (i) Negative NOF (Net Owned Fund), (ii) Understatement of their deposit liability, (iii) Forfeiture of deposits, (iv) Levy of service charges on the depositors (v) Payment of high rates of commission, etc.

To remove these features, RBI has extended prudential norms to these companies, introduced compulsory registration requirement, specified minimum rates of interest payable

on their deposits under different schemes. Under the RBI (Amendment) Act, 1997, the RBI directly inspects and monitoring the activities of these companies.

## 8.4 SIGNIFICANCE OF NBFC IN INDIA

According to the Economic Survey 2014-15, it has been reported that NBFCs as a whole account for 11.2 per cent of assets of the total financial system. With the growing importance assigned to financial inclusion, NBFCs have come to be regarded as important financial intermediaries particularly for the small-scale and retail sectors. In the multi-tier financial system of India, importance of NBFCs in the Indian financial system is much discussed by various committees appointed by RBI in the past and RBI has been modifying its regulatory and supervising policies from time to time to keep pace with the changes in the system. NBFCs have turned out to be engines of growth and are integral part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and have been increasingly recognized as complementary of banking system at competitive prices. The Banking sector has always been highly regulated, however simplified sanction procedures, flexibility and timeliness in meeting the credit needs and low cost operations resulted in the NBFCs getting an edge over banks in providing funding. Since the 90s crisis the market has seen explosive growth, as per a Fitch Report1 the compounded annual growth rate of NBFCs was 40% in comparison to the CAGR of banks being 22% only. NBFCs have been pioneering at retail asset backed lending, lending against securities, microfinance etc and have been extending credit to retail customers in under-served areas and to unbanked customers.

## 8.5 FUTURE PROSPECTS OF NBFC SECTOR

NBFCs have been playing a very important role both from the macro economic perspective and the structure of the Indian financial system. NBFCs are the perfect or even better alternatives to the conventional Banks for meeting various financial requirements of a business enterprise. They offer quick and efficient services without making one to go through the complex rigmarole of conventional banking formalities. However to survive and to constantly grow, NBFCs have to focus on their core strengths while improving on weaknesses. They will have to be very dynamic and constantly endeavour to search for new products and services in order to survive in this ever competitive financial market.

Since NBFCs have been kept outside the purview of SARFAESI Act, a reform in this area is quite urgently needed. A suitable legislative amendment extending the operation of the said Act to NBFCs too would go a long way in fortifying the faith of the investors and which in turn would greatly contribute to the growth of this Sector. The coming years will be very crucial for NBFCs and only those who will be able to face the challenge and prove themselves by standing the test of time will survive in the long run.

8.6 NO	OTES			
	<del></del>	 	 	

## 8.7 SUMMARY

In short an NBFC may be defined as a company registered under the Companies Act, 1956 and also registered under the provisions of Section 45-IA of the Reserve Bank of India Act, 1934 and which provides banking services without meeting the legal definition of bank such as holding a banking license. NBFCs are basically engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principle business is that of agricultural activity or any industrial activity or sale, purchase or construction of immovable property.

In this unit we had an overview of NBFC in India

## 8.8 KEY WORDS

NBFC, Deposit, Hire Purchase, Lease, Housing Finance, Investment Company

## 8.9 SELF ASSESSMENT QUESTIONS

- 1. Define Non Banking Finance Companies. How it is different from Banking institutions?
- 2. Explain the classification of NBFC in India
- 3. Discuss the significance of NBFCs
- 4. Visit any two NBFC in your area and write a report on their operations

## 8.10 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. Service Management and Operations. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.



Mukthagangothri, Mysore-570006

## DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

## M.B.A III SEMESTER

## **COURSE - 14**

## **SERVICES MANAGEMENT**

## **BLOCK**

3

## MARKETING SERVICES MANAGEMENT

Unit 9	
Service Encounter and Loyalty Building	01-22
Unit 10	
Management of Hospitality Services	23-40
Unit 11	
Management of Tourism and Travel Services	41-58
Unit 12	
Management of Education and Other Services	59-77

Prof. T.D.Devegowda							
Dean (Academic)(I/C)& Convenor							
Karnataka State Open University Muktagangotri, Mysore – 570 006							
Dr H. Rajeshwari							
Assistant Professor							
Dos & Research in Management,							
Karnataka State Open University,							
Mukthagangothri, Mysore – 570 006							
BLOCK-3 (Units 9 to 12)							

## **Publisher**

## Registrar

Karnataka State Open University, Mukthagangothri, Mysore - 6

## Developed by Academic Section, KSOU, Mysore- 6, 2016

All rights reserved. No part of this work may be reproduced in any form, by mimeograph or any other means, without permission in writing from the Karnataka State Open University.

Further information may obtained from the University's office at Muktagangotri, Mysore - 6

Printed and Published on behalf of Karnataka State Open University, Muktagangotri, Mysore - 6

## **BLOCK -3 MARKETING SERVICES MANAGEMENT**

Dear Learner, in the previous modules, you had discussed the concept of services management and financial services management. It encompasses basic aspects of services and various financial services. In this module we are trying to famelairize you with the marketing services management. This module discusses how to market various services and the appropriate marketing mix required. We have considered here few important services which are significantly to the economy.

Marketing is considered as significant and widely used in manufacturing industry. However marketing service sector is also gaining momentum in the recent past due to the significance of service sector in economic growth. We expect after reading this module you should able design appropriate marketing mix for others services as well.

This module has been divided into 4 units. They include

Unit 9: Service Encounter and Loyalty Building- Service encounter, importance, types, customer loyalty, building customer loyalty.

Unit 10- Management of Hospitality Service: Classifications, Characteristics, Marketing Mix, Hospitality Industry in India, Emerging trends

Unit 11- Management of Tourism and Travel services: Tourism Industry, Market Segmentation, Marketing Strategies, Marketing Mix

Unit 12- Management of Education and Other services: Management of Education, health care, professional and public utility services

# UNIT 9: SERVICE ENCOUNTER AND LOYALTY BUILDING

# **Structure:**

9.0	Objectives
9.1	Introduction
9.2	Service Encounter
9.3	Interactive Marketing and Service Encounter
9.4	Importance of service encounters
9.5	Types of service encounters
9.6	Service Encounter Framework
9.7	Customer Loyalty
9.8	Building Customer Loyalty
9.9	Notes
9.10	Summary
9.11	Key Words
9.12	Self Assessment Questions
9.13	References

#### 9.0 OBJECTIVES

After Studying this unit, you should be able to:

- > Explain Service Encounter;
- ➤ Appreciate the importance of service encounter;
- Describe customer Loyalty and
- ➤ Build Service Loyalty.

# 9.1 INTRODUCTION

Services like goods are not bought and sold, but they are delivered. The quality of the service delivered depends upon the interaction between the service providers and their customers. The performance of the service providers are influenced by the service expectations of the customers and the service promises made by the service provider. Services, because of their peculiar nature of intangibility, reflect the content and the quality of the service provided through the acceptance or rejections by the customer. Thus service encounter is the time or a situation where in customers and the service providers interact with each other. Service encounter is an outcome of the interactive marketing between the employees of an organization or the people who are directly keep in touch with the customers. In marketing terminologies, internal marketing is concerned with an interaction between the employee and the employer in order to create a conducive environment for the people to work with their full potential where as external marketing is concerned with the establishment of a relationship between a company with its customers.

The frontline employees often face the challenges and responsibility of satisfying customers and building their loyalty. The real challenge of the firm is to prepare these frontline employees to deliver superior service encounter experiences that would help build loyalty and profitability to the firm. The service sector industries like banking, hospitals, tourism, airlines, and hotels are spending enormous amount of money towards customer satisfaction and retention through putting right people in the frontline. The aim of the service organization in any service encounter is to understand and manage the interaction between the customer and the frontline employee in creating satisfied customers, which results in long-term relationship and loyalty building.

#### 9.2 SERVICE ENCOUNTER

Service marketing companies normally create and maintain relationship through their corporate and marketing communications. When a company gives an advertisement of a high quality service or product, this commitment will become visible and complete when the promised services are delivered in full. Interactive marketing is the practical encounter of customers with the service provider. Service encounter is an instance where customer and the company come into contact with one another in a manner that gives an opportunity to both of them either to form or to change an impression about each other. Such an occasion helps in building or breaking the relationship. Therefore it is also called the moments of truth, where the promises and the expectations meet with each other. An encounter between the customer and the service provider is not only an interaction between people it also involves an encounter with the technology, physical facilities, other customers both satisfied and dissatisfied along with other elements of services product mix developed by the company.

The impact of globalization has made the Indian economy more competitive in providing their services to the customers. Providing the superior service is the only choice a firm has to differentiate itself in the tough competition. Service encounter which is also known as the "moment of truth" is actually the interaction which takes place between the frontline employee and the customer. Service encounter occurs when the customer interacts with the firm and it is considered as a critical determinant of customer satisfaction and loyalty. Service encounter is also an opportunity for the firm to build trust, reinforce quality, build brand identity, and increase loyalty. Due to the advancement in the Information Technology and the globalization of businesses, a consumer is having number of alternatives to choose the service from and their expectation is high.

Few examples and features of service encounters and building loyalty:

During the Dasara Festival season, most of the Resorts and Hotel Rooms will be filled in Mysore City by tourists. The series of service encounters which takes place from check-in to check-out between the customer and frontline employee during this season will determine whether the customer will stay in the same hotel next season or during the visit to the city for any business or pleasure. The repetitive action by the customer is the loyalty towards the Hotel, which is the result of the interactions with the frontline employees.

In case of routine and repetitive jobs, if a university employee is providing information to students and parents about the courses offered by the university, without losing the enthusiasm in the job by overcoming boredom and fatigue performs his duty would result in student's satisfaction and loyalty towards the university. The interaction be tween the prospective student and employee is the service encounter.

- ➤ Bank employees often face the same situations where they are expected to provide the same information repetitively to each customer and clarify their doubts. In every service encounter bank employees are expected to provide superior service to the customer by keeping their personal problem aside. This will result in a successful service encounter and help in customer loyalty building.
- A multispecialty hospital security guard preventing the visitors from seeing the diseased patient and behaving rude with the patients family members is an example of failed service encounter and loss of customer loyalty by the Hospital, though it has good nurses and doctors. The customer will chose the competitors multispecialty hospital next time, having friendly security guards along with good nurses and doctors.
- Frontline employees in service encounters cannot always satisfy every need of the customers. In some cases where the customers become abusive towards the employees. As in a case of international flights where some intoxicated customers demanding for more alcohol and become abusive towards airhostess, indecent behavior towards airhostess will not be tolerated.

# 9.3 INTERACTIVE MARKETING AND SERVICE ENCOUNTER

Interactive marketing takes place between employees of the service organization and service customers. Through internal marketing, service providers prepare customer-contact employees, physically and mentally, to perform the service. Consumers are also educated and trained to participate in service production and consumption through external marketing. The actual process of service production, delivery and consumption takes place simultaneously during the interactions of contact employees and consumers. The meeting between contact employee and service consumer is called 'service encounter'.

Interactive marketing is termed as a 'process' in service marketing, the managerial process through which a series of interactions between service provider and consumer are

organized to facilitate efficient participation in service production and consumption that satisfies the needs and wants of the consumers and creates positive customer perceived quality. A customer perceived quality ultimately is the result of the interactive process.

# Moments of Truth:

The company should identify those moments between employees and customers, customers and service environment, and between customers and systems and other processes that are capable of creating some specific experiences for the customer. The moments thus identified are to be assigned by categorizing and classifying them into groups, to each employee involved in the interaction process. The concerned employee is responsible for managing the assigned moments. Management of moments of truth effectively is possible only when employees are adequately empowered. It also requires a high level of motivation as well as morale of the employees. This concept makes every employee creative and innovative. The employee will become conscious of what is happening in the moments assigned to them and become accountable for such moments for the company.

#### 9.4 IMPORTANCE OF SERVICE ENCOUNTERS

Services by nature, involves a sequence of activities that connects the service provider and the customer. Services are delivered through a series of activities logically designed to impress the customers. Service encounters are the practical instances that influence the relationship between the customer and the service provider. Service encounters and their management are important due to the following issues.

- ❖ To understand the expectations and perceptions of the customers through a direct interactions,
- ❖ To customize the services and to give personal touch and to enhance customer satisfaction,
- ❖ To involve the customers in the service delivery process in order to make them experience the unique features of the service.
- ❖ To evaluate the degree of customers involvement in service delivery and usage process in order to design qualitative services for the future.

- ❖ For providing superior service quality to the customers by the firm.
- ❖ It helps in building loyalty by delivering customer satisfaction.
- ❖ It helps the customer in buying decision making through opinion formation and word of mouth.
- Creating new customers and retaining existing customers.
- ❖ For creating best first impressions that last longer, even to retain the customer for lifetime with the firm.
- Creating goodwill for the company by highlighting the special features during interactions.
- ❖ Evaluate and control the performance of the employees of the company by analysing the customer's reactions.
- ❖ Formulating strategies for improving the service package and the service delivery system.

### 9.5 TYPES OF SERVICE ENCOUNTERS

On the basis of the time and the nature of the interactions between customers and the service provider there are generally three types of service encounters. They are

- o Remote encounter,
- o Encounters over the phone and
- o Face-to-face encounters.

Remote encounters: It is a virtual interaction between the service provider and the customer. Internet and the electronic devices act as the connecting points for both the customer and the service provider. The effectiveness of these interactions depends upon the quality of the delivery systems and the technology used. This encounter occurs without any human contact, such as bank ATM's, automated ticketing machine or receiving billing statement through mail. Though, there is no direct human interaction between firm and the customer in these remote encounters, they represent an opportunity for the firm to reinforce or establish quality perception in the customer. The primary basis for judging quality in these remote encounters

is the tangible evidence of the service and the quality of technical process and system.

The services which are delivered through online applications such as, online shopping, ticket booking, shipment tracking, and bill payment are the few examples of remote encounters.

**Phone encounters:** Phone encounter occurs in almost all firms, whether it is a goods manufacturing firm or service business. They rely on phone encounters in the form of customer service, general enquiry or order taking functions. The judgement of quality in phone encounters is different from remote encounters because, there is greater potential variability in the interactions. Tone of voice, employee knowledge and effectiveness or efficiency in handling customer issues become important criteria for judging the quality of the services in this type of encounters.

**Face-to face encounters:** It is the third type of encounter which occurs directly between customer and the frontline employee of the firm. Employees are both the contact point and the mouthpiece of the servicing organization. Customers will sketch the image of the company based on their interaction with the employees. This is the real interactive marketing where the emotional labour plays a major role. Smiling face, polite language, pleasing expressions, timely response and the personalities makes an impact on the quality of the service delivered. Therefore care should be given in interacting with the customers at face-to-face. Both verbal and nonverbal behavioural attributes are important determinants of quality. Employee training, codes of conduct such as uniform or dress code, cleanliness, gestures and mannerisms are few service symbols.

# 9.6 SERVICE ENCOUNTER FRAMEWORK

A service encounter framework typically involves several stages or phases. As it is an interaction that builds relationship which may results in satisfaction or dissatisfaction to the customer, it is difficult to place the elements of this process in a strict sequence. However, the objectives and the nature of the parties involved in the interaction determine the number and the sequence in which they are to be followed. The first step begins with an initial customer contact with the firm and ends with a follow-up. Each stage of these steps has certain customer requirements and expectations associated with the interaction or encounter.

**Elements:** Service encounter and their effectiveness depend on three major elements involved in the process of interaction between the customer and the service provider. The first and the most important element is concerned with the waiting time. This is the stage in

which an impression will start building in the customers mind. A too short or a too long waiting period will give a negative impression to the customer about the servicing firm. Hence attempts must be made to design the waiting period to make a positive impression in the customer's mind.

Personal interaction and perception is the second stage where in the customer interacts with the service provider with specific issues that may result in a solution to his problem. This element is the core of service delivery system and influences the moments of truth to a greater extent and the third elements is the interactions throughout the relationship between the customer and the service provider. It can go up to a regretting or apology by either of them for not able to meet the requirements without braking scope for future interaction.

**Access:** Making anything available when it is required is the first step in the process of marketing. In an interaction, tools or infrastructure that facilitates the service delivery are called access. For example-telephone, fax, computers, personal visit. To make a good first impression services must be easily accessible. Free helpline numbers, visible signs, encourage ease of access.

Check in: Check in is the stage where the customer presents himself before the service provider. Whether sought or unsought initiation by the customer to interact with the service provider, this is the stage that makes an impression which would lead to a favourable or unfavourable relationship. In this stage customer provides some personal details together with reasons for contacting the service organization. The key consideration here is to make the customer feel welcome and free to look for a solution to solve his problem or a means to fulfil his requirements. Service personnel must be trained appropriately to direct the customer needs to service process.

**Diagnosis:** At this point, the service provider must identify the requirements of the customers both through expressed and unexpressed by his words. The service personnel must carefully study the customer's requirements and identify the specific expectations that can be met by the service offer of the firm.

**Service Delivery:** This is the most important step in the service encounter which results in the transfer of benefit from service provider to the customer. This act is supported by both tangible and intangible product features. Therefore a proper blend of the service mix is required to deliver the promises made by the organization.

**Checkout / Disengagement:** This is the stage that leaves an impression on the customers

mind. At this point a consolidated last impression will be made about the quality of both the service encounter and the delivery of the service benefits. A checkout or disengagement can make the customer to remember the positive or negative attributes of service. Therefore, an open ended option can be presented before the customer to give his views on service and suggestions to improve the quality of the same.

**Follow-up:** Service organizations increasingly making contacts with the customers after service consumption to determine the levels of satisfaction/dissatisfaction.

#### 9.7 CUSTOMER LOYALTY

Customer loyalty can be defined as a customer continuing to believe that your organization's product/service offer is their best option. It best fulfills their value proposition whatever that may be. They take that offer whenever faced with that purchasing decision. Many elements are involved in creating long-term customer relationships and loyalty.

The process starts by identifying and targeting the right customers. If the firm wants to build successful customer relationships, it needs to be selective about the segments they target. Managers need to consider how well their service personnel can meet the expectations of specific types of customers, in terms of both personal style and technical competence. Finally, managers need to ask themselves whether their company can match or exceed competing services that are directed at the same types of customers.

Too many service firms still focus on the number of customers they serve as an important issue for operations and human resource planning without giving sufficient attention to the value of each customer. Generally speaking, heavy users buy more frequently and in larger volumes and are more profitable than are occasional users. Relationship customers are by definition not buying commodity services. Service customers who buy based strictly on lowest price (a minority in most markets) are not good target customers for relationship marketing in the first place. These deal-prone customers continually seek the lowest price on offer.

Marketers shouldn't assume that the "right customers" are always high spenders. Depending on the service business model, the right customers can come from a large group of people that no other supplier is doing a good job of serving. An example is Rent-A-Car, which targeted customers who need a temporary replacement car and avoided the more traditional segment of business travelers pursued by its principal competitors.

#### Selecting an Appropriate Customer Portfolio

In financial services, the goal of portfolio analysis is to determine the mix of investments (or loans) that is appropriate to one's needs, resources, and risk preference. We can apply the concept of portfolio to service businesses with an established base of customers. Different segments offer different value for a service firm. Like investments, some types of customers may be more profitable than others in the short term, but others may have greater potential for long-term growth. Similarly, the spending patterns of some customers may be stable over time, whereas others may be more volatile; companies in cyclical industries tend to spend heavily in boom times but cut back sharply in recessions.

A wise firm may seek a mix of such segments in order to reduce the risks that various types of customers might be affected by market or macroeconomic forces. The caliber of a professional firm is measured by the type of clients it serves and the nature of the tasks on which it works. Volume alone is no measure of excellence, sustainability, or profitability. In professional services, such as consulting firms or legal partnerships, the mix of business attracted may play an important role in both defining the firm and providing a suitable mix of assignments for staff members at different levels in the organization.

# **Analyzing and Managing the Customer Base**

Marketers should adopt a strategic approach to retaining, upgrading, and even terminating customers. Customer retention involves developing long-term, cost-effective links with customers for the mutual benefit of both parties, but these efforts need not necessarily target all a firm's customers with the same level of intensity. Recent research has confirmed that most firms have several tiers of customers in terms of profitability and that these tiers often have quite different service expectations and needs.

# Tiering the Customer Base

Customer tiers can be developed around various levels of profit contribution, different needs (including sensitivities to such variables as price, comfort, and speed), and identifiable personal profiles, such as demographics.

**Platinum** These customers, who constitute a very small percentage of a firm's customer base, are heavy users and contribute a large share of the profits generated. Typically, this segment is less price sensitive but expects highest service levels in return and is likely to be willing to invest in and try new services.

**Gold** The gold tier forms a larger percentage of customers than the platinum, but individual customers contribute less profit than do platinum customers. Gold-tier customers tend to be slightly more price sensitive and less committed to the firm.

**Iron** These customers provide the bulk of customer base. Because their numbers give the firm economies of scale, they are often important so that a firm can build and maintain a certain capacity level and infrastructure, which is often needed for serving gold and platinum customers. However, iron customers in themselves are often only marginally profitable. Their level of business is not sufficiently substantial for special treatment.

**Lead** Lead-tier customers tend to generate low revenues for a firm but often still require the same level of service as iron customers, which turn them into a loss-making segment from a firm's perspective.

# Retaining, Upgrading, and Terminating Customers

Among segments for which the firm already has a high share of wallet, the focus should be on nurturing, defending, and retaining these customers, potentially via loyalty programs. For lead-tier customers, the options are to either migrate them to the iron segment or terminate them. Terminating customers comes as a logical consequence of the realization that not all existing customer relationships are worth keeping. Many relationships are no longer profitable for the firm, as they may cost more to maintain than the revenues they generate. Some customers no longer fit the firm's strategy, either because it has changed or because the customers' behavior and needs have changed. Bank customers who bounce too many checks, students who are caught cheating in examinations or country club members who consistently abuse the facilities or other people may be asked to leave or face expulsion. In other instances, termination may be somewhat less confrontational. Alternatively, a doctor or lawyer may suggest to unprofitable, difficult and/or dissatisfied clients that they should consider switching to another provider whose expertise or style is more suited to their needs and expectations.

#### 9.8 BUILDING CUSTOMER LOYALTY

What makes customers loyal to a firm, and how can marketers increase their loyalty? We first review the common loyalty drivers for customers and then explore the foundations of loyalty and how firms can build or enhance such loyalty drivers further.

#### **Customers' View of Relational Benefits**

Research by Kevin Gwinner, Dwayne Gremler, and Mary Jo Bitner suggests that relationships create value for individual consumers through such factors as inspiring greater confidence, offering social benefits, and providing special treatment. Piyush Kumar emphasizes that relationships in a business-to-business service are dependent largely on the quality of the interactions between individuals at each of the partnering firms. "As relationships strengthen over a period of time," he observes, "the service provider's personnel often assume the role of out-sourced departments and make critical decisions on behalf of their clients."

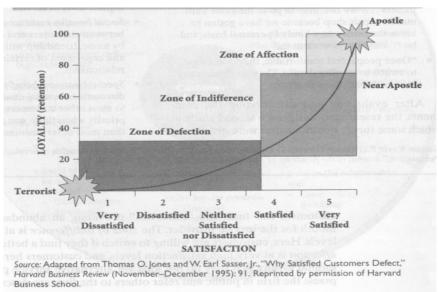
# The Foundations of Customer Loyalty

The foundation for true loyalty lies in customer satisfaction. Highly satisfied or even delighted customers are more likely to become loyal apostles of a firm, consolidate their buying with one supplier, and spread positive word of mouth. In contrast, dissatisfaction drives customers away and is a key factor in switching behavior.

The following figure divides the satisfaction/loyalty relationship into three main zones. The zone of defection is at low satisfaction levels. Customers will switch unless switching costs are high or there are no viable or convenient alternatives.

Extremely dissatisfied customers can turn into "terrorists," providing an abundance of negative word of mouth for the service provider. The zone of indifference is at intermediate satisfaction levels. Here, customers are willing to switch if they find a better alternative. The zone of affection is at very high satisfaction levels, and customers here can have such high attitudinal loyalty that they do not look for alternative service providers. Customers who praise the firm in public and refer others to the firm are described as "apostles."

Fig 9.1 The Customer Satisfaction/Loyalty Relationship

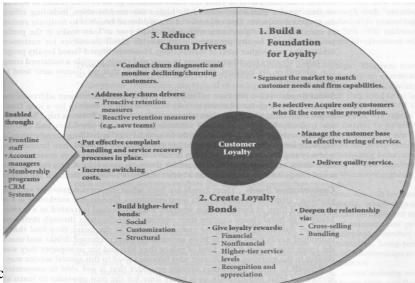


# **Creating Bonds with Customers**

Having the right portfolio of customer segments, attracting the right customers, tiering the service, and delivering high levels of satisfaction are a solid foundation for creating customer loyalty. At the same time, service marketers should be working to identify and eliminate the factors that result in "churn," or the loss of existing customers and the need to replace them with new ones.

Deepening the Relationship To tie customers more closely to the firm, deepening the relationship via bundling and/or cross-selling services is an effective strategy. For example, banks like to sell as many financial products into an account or household as possible. Once a family has its current account, credit card, savings account, safe-deposit box, car loan, mortgage, and so on, with the same bank, the relationship is so deep that switching becomes a major exercise and is unlikely unless, of course, the customer is extremely dissatisfied with the bank.

**Reward-Based Bonds** Within any competitive product category, managers recognize that few customers consistently buy only one brand, especially if service delivery involves a discrete transaction (such as a car rental) rather than being continuous, (as The Wheel of Loyalty



with insuranc nds while spurning

others sometimes described as "polygamous loyalty" (not to be confused with variety seeking, which results in consumers' flitting butterfly like from brand to brand, without any fixed allegiance at all). In such instances, the marketing goal becomes one of strengthening the customer's preference for one brand over the others.

Incentives that offer rewards based on the frequency or value of purchase combination of both represent a basic level of customer bonds. Reward-based bonds can be financial or nonfinancial. Financial bonds are built when loyal customers are rewarded with incentives that have a financial value, such as discounts on purchases and loyalty-program rewards, such as frequent flier miles (in airlines) or the cash-back programs provided by some credit card issuers, based on the level of spending charged by card members.

Nonfinancial rewards provide customers with benefits or value that cannot be translated directly into monetary terms. Examples are giving priority to loyalty-program members for waitlists and access to call centers and operators. Some airlines provide such benefits as higher baggage allowances, priority upgrading, and access to airport lounges to its frequent flyers, even when they are flying in economy class. In the B2B context, offering service extras often plays a key role in building and sustaining relationships between vendors and purchasers of industrial goods. Informal loyalty rewards, sometimes found in small businesses, may take the form of periodically giving regular customers a small treat as a way of thanking them.

Important intangible rewards may take the form of special recognition and appreciation. Customers tend to value the extra attention given to their needs, as well as the implicit service guarantee offered by higher-tier memberships, including efforts to meet special requests. One objective of reward-based bonds is to motivate customers to consolidate their purchases with one provider or at least make it the preferred provider. Tiered loyalty programs often provide direct incentives for customers to achieve the next higher level of membership. However, regard-based loyalty programs are relatively easy for other suppliers to copy and rarely provide a sustained competitive advantage. By contrast, the higher-level bonds that we discuss next tend to be more sustainable.

**Social Bonds** Have you ever noticed how your favorite hairdresser addresses you by name when you go for a haircut or asks why you haven't been in for a long time and hopes everything went well when you were away on a long business trip? Social bonds are typically based on personal relationships between providers and customers. Alternatively, they may reflect pride or satisfaction in holding membership in an organization. Although social bonds are more difficult to build than financial bonds and may require considerable time to achieve, they are, for that same reason, also more difficult for other suppliers to replicate for that same customer. A firm that has created social bonds with its customers has a better chance of retaining them for the long term.

Customization Bonds These bonds are built when the service provider succeeds in providing customized service to its loyal customers. One-to-one marketing is a more specialized form of customization whereby each individual is treated as a segment. Many large hotel chains capture their customers' preferences through their loyalty program databases; when those customers arrive at the hotel, they find that their individual needs have already been anticipated, from preferred drinks and snacks in the room refrigerator to the kind of pillow they like and the newspaper they want to receive in the morning. A customer who becomes used to this special service may find it difficult to adjust to another service provider that is not able to customize the service (at least immediately, as it takes time for the new provider to learn about someone's needs).

**Structural Bonds** Structural bonds are seen mostly in B2B settings and aim to stimulate loyalty through structural relationships between the provider and the customer. Examples are joint investments in projects and sharing of information, processes, and equipment. Structural bonds can be created in a B2C environment, too. For instance, some airlines have introduced SMS and email alerts for flight arrival and departure times so that travelers do not have to waste time waiting at the airport in the case of delays. Some car rental companies offer travelers the opportunity to create customized pages on the firm's Web site, where they can retrieve details of past trips, including

the types of cars, insurance coverage, and so forth. This simplifies and speeds the task of making new bookings. Once customers have integrated their way of doing things with the firm's processes, structural bonds are created that link those customers to the firm and make it more difficult for competition to draw them away.

# **Creation of Customer Bonds through Membership Relationships and Loyalty Programs**

As a marketing strategy, many service businesses seek ways to develop formal, ongoing "membership" relations with customers. Hotels, for instance, have developed "frequent-guest programs" offering priority reservations, upgraded rooms, and other rewards for frequent guests. Many nonprofit organizations, such as museums, create membership programs in order to reinforce the links with their most active supporters, offering them such extra benefits as private showings and meetings with curators or artists as a reward for annual donations. The marketing task here is to determine how to build sales and revenues (or, in the case of nonprofits, donations) through such "memberships," while avoiding the risk of freezing out a large volume of desirable casual business.

# Transforming Discrete Transactions to Membership Relationships Discrete transactions,

when each use involves a payment to the service supplier by an essentially "anonymous" consumer, are typical of such services as transport, restaurants, cinemas, and shoe repairs. The problem for marketers of such services is that they tend to be less informed about who their customers are and what use each customer makes of the service than are their counterparts in membership-type organizations. Managers in businesses that sell discrete transactions have to work a little harder to establish relationships. In small businesses, such as hairdressers, frequent customers are (or should be) welcomed as "regulars" whose needs and preferences are remembered. Keeping formal records of customers' needs, preferences, and purchasing behavior is useful even in small firms, as it helps employees avoid having to ask repetitive questions on each service occasion, allows them to personalize the service given to each customer, and also enables the firm to anticipate future needs.

Dear Student, As you know, there is no short cut to success. In the same way, the firms must be genuinely interested in customers, try honestly to fulfill their expectations, provide good service at an affordable price. These things can go a long way in building customer loyalty.

9.9	NOTES
	<del>-</del>
	<del></del>

#### 9.10 SUMMARY

This unit is intended to provide the learner a brief idea about the service encounter, its features, importance, types of service encounters and the framework along with the service quality dimensions expected by the customers. The unit has attempted to describe the service encounter as role play by both customers and frontline employees. The training and the part of frontline employees play in delivering superior service encounters and building customer loyalty.

#### 9.11 KEY WORDS

Service Encounter, Moment of Truth, Customer Loyalty, Building customer loyalty

# 9.12 SELF ASSESSMENT QUESTIONS

- 1. Define Service Encounter, Explain the types of service encounter
- 2. Discuss the importance of service encounter in services management
- 3. Define customer loyalty. What are the benefits of customer loyalty?
- 4. How do you build Customer loyalty?

# 9.13 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. Service Management and Operations. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# **UNIT 10: MANAGEMENT OF HOSPITALITY SERVICES**

# **Structure:**

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Hospitality Product
- 10.3 Classification of Hospitality Products
- 10.4 Characteristics of Hospitality Industry
- 10.5 Hospitality Industry in India
- 10.6 Emerging trends in hospitality Industry
- 10.7 Hospitality Marketing-Major Decisions
- 10.8 Marketing Mix for hospitality Industry
- 10.9 Case Study
- 10.10 Notes
- 10.11 Summary
- 10.12 Key Words
- 10.13 Self Assessment Questions
- 10.14 References

#### 10.0 OBJECTIVES

After Studying this unit, you should be able to:

- Explain Hospitality Product;
- Describe the characteristics of Hospitality Industry;
- > Identify the emerging trends in Hospitality Industry and
- Design the marketing mix for hospitality Industry.

#### 10.1 INTRODUCTION

Hospitality refers to the pleasant and princely treatment and entertaining of guests, tourists, or visitors. **Hospitality** is the relationship between a guest and a host, wherein the host receives the guest with goodwill, including the reception and entertainment of guests, visitors, or strangers. It is relating to or denoting the business of entertaining clients, conference delegates, or other official visitors. The hospitality industry consists of businesses which practice the art of being generous, friendly and hospitable towards their guests either socially or commercially.

Hospitality industry is one of the largest and fastest growing industries, estimated at a 3.5 trillion dollar service sector in global economy and expected to grow at the rate of 8% annually. Hospitality industry emphasises on service and guest satisfaction. Its product is intangible and perishable. Hospitality industry is one of the widely classified sectors under the service industry. It includes hotels, resorts, restaurants, catering, fast-food, Entertainment and recreations like amusement parks, clubs, travel and tourism. The workers at the hospitality industry work 24×7 on rotational shifts and it is a non-stop business of satisfying the guests.

Hospitality is very closely associated with the tourism industry; it is the life blood of tourism. The tourism and hospitality industry can be identified by products needed to meet demand for travel, accommodation, food and beverages away from home.

#### 10.2 HOSPITALITY PRODUCT

Hospitality products are outputs of the hotel and catering industry. They refer to satisfaction and dissatisfaction which are being received or expected to be received from a hospitality experience. They may be physiological satiated appetite, quenched thirst, comfortable bed and pleasant

environment; economical good value for money, speedy service, excellent location and credit facilities; social enjoyable company, attentive staff and advice on selection of food and wine; or psychological fulfillment of needs relating to self-esteem, status and security.

# **Basic Components of Hospitality Product**

According to Median, five basic components of hotels contribute to satisfaction/dissatisfaction. These are:

- 1. Location defines the geographical placement of a hotel in a particular village, town or city or country. Within a given area, specific location defines access and convenience, freedom from noise and other disturbance, attractiveness of surroundings.
- **2.** Facilities include the infrastructural and recreational facilities bedrooms, restaurants, bars, conference and committee rooms, swimming pool, gym and tennis courts.
- **3. Services**—defined by the availability and access of particular hotel services provided through its facilities and personal as well as the quality and style of these services in terms of formality/informality, degree of personal attention, efficiency and speed.
- **4. Image**—defined by the way the hotel is perceived by consumers at large. While image is a product of deliberate and controllable inputs like location facilities and service, it is also contributed by factors such as its name, appearance, atmosphere and associations as to who stays and eats, what it communicates about itself, and what people say about it.
- **5. Price** is an expression of the value provided by the hotel through its location, facilities, service and the satisfaction derived to the consumers from the use of the above elements of the service product

The fundamental benefit for the consumer to the service can be the room provided by the restaurant or the eating or the socializing place. The tangible product can be the size of the room, and the facilities provided can be AC, TV, telephone or a balcony, room service, etc. Augmented product refers to the complete product offerings and includes the atmospherics, the behavior of staff, the decor; and services like transport, communication and secretarial assistance. The core product offered by most hotels may be the same but differentiation can be achieved at tangible and augmented product levels by the different market players.

**Table 10.1 Hospitality Product Escalation / Augmentation** 

Accommodation	Food and Beverage
Reservation system convenience	Speed of food service
Reservation system simplicity	Ordering convenience
Acknowledgement of reservations	Telephone.
Lift attendants	Advance orders
Room service	Order-taking table staff
Standard of housekeeping	Complaints procedures
Courtesy	Advance reservations
Procedures for handling overbooking	Reliability of food/ beverage quality
Information service	customer advice on wines
Customer recognition	Provision of special foods
Credit provision	Cooking to order
Baggage handling	Acceptance of credit cards
Pet/child care	Variations in portions
provision for disabled	Home deliveries
Group accommodation	Extent of non-available menu items
Discounts on club referrals, etc.	Fiber/calorie information
Cleaning/laundry	Provision of doggy-bags
Courtesy care	Function-catering facilities
Willingness to bill later	Quality of table appointments,
	Entertainment
CLASSIFICATION HOSPITALITY	Privacy/discretion

The diversity of establishments in the hotel sectors in respect of the facilities services and consequently prices has proliferated a number of classifications and guiding schemes in

the sector.

In countries where legal registration of hotel establishments is required, classification

automatically takes place. In other countries, classifications are voluntary and are used for differentiation purposes. The major benefits of classification are the assurance of maintenance of certain safety and public health standards and simplification of marketing by managing consumer expectations. Among the most widely used classifications is the classification which classifies hotels by type and awards a star rating. The higher rated hotels are presumed to incorporate the facilities of the lower rated ones. According to this classification, the hotels are classified as:

1 star: Simple in furnishing or menus or service. May well be managed by the proprietor personally, with few employed senior staff, usually few, if any private bathrooms.

**2 star:** Formal reception arrangements and more employed staff. It has more accommodation usually of a higher standard, greater provision for non-resident diners, including separate toilet arrangements. Lounge service available to residents.

**3 star:** Small luxury hotels or larger well-appointed hotels offering a high degree of comfort. IT possesses some room service, telephones in bedrooms, a good proportion of bedrooms with private bathrooms. Full meal facilities for residents and non-residents including chance callers, on every day of the week.

**4 star:** Large hotels with a full brigade of professional staff. Reception, porters and room service at all hours. Post office, telephones in all bedrooms, a high proportion of private bathrooms, some bedrooms with private lounges, conference and/or banqueting facilities, or recreational facilities.

**5 star:** Large luxury hotels offering the highest standard of accommodation, service and comfort.

# 10.4 CHARACTERISTICS OF HOSPITALITY INDUSTRY

The unique characteristics of services apply to hospitality industry also. Let us look into these characters with special focus on hospitality industry.

**Intangibility**: The hospitality products cannot be seen, tasted, felt, heard or smelled before they are purchased. When the sales representative of a hotel goes to sell hotel room they do not take hotel room with them. In fact they do not sell a room. Instead, they sell the right to use a room for a specific period of time.

**Inseparability**: In most hospitality services, both the service provider and the customer must be present for the transaction to occur. The food in a restaurant may be outstanding, but if the service person has a poor attitude or provides inattentive service, customers will down-rate the overall restaurant experience.

Variability or heterogeneity: Services are highly variable because their quality depends on who provide them and when and where they are provided. In service delivery high level of human involvement is required. This makes it vary every time the consumer is availing the service. Hotel room will remain the same but the service and facilitation in the room will depend upon the housekeeping staff. The cleanliness of a hotel room may have different standards if the housekeeping supervisor or the room cleaner is changed.

**Perishability**: Services cannot be stored. Vacant rooms are perishable. The unsold room tonight can never be sold again. Like empty airline seats, Theatre seats or sport arena seats, hotel rooms cannot be stored, cannot be saved and cannot be used a new.

**Fixed Supply**: Supply of rooms in a hotel is fixed. Airlines adjust to demand by temporarily adding or removing flights. This is not so with hotels.

**High Operating Cost**: Unlike manufacturing industries, which offset labour with large capital investments, hotels are both capital and labour intensive. The result is high fixed costs, which continue whether or not the hotel has business. Thus a high percentage of occupancy is needed just to break even.

**Seasonality**: Seasonality means changes in business, employment or buying patterns which occurs predictably at given times of the years. On a business site, seasonality is defined as seasonal fluctuation in economic or business activity which occurs again and again regularly during a year as a result of changes in climate, holidays and vacations. Seasonality indicates the subject matter of fluctuations of demand or supply in the tourism industry which are effected due to weather conditions, public and school holidays. (Seasonality in hotels involves fluctuations in number of guests, occupancy rates and bed nights). The Indian hotel industry normally experiences high demand during October–April, followed which the monsoon months entail low demand.

#### 10.5 HOSPITALITY INDUSTRY IN INDIA

In India, the concept of shelter for traveller came in the form of viharas, dharmshalas, sarais, musafir khanas etc. These accommodations provided a home to all pilgrims, scholars, adventurers and merchants. Along with industrial revolution and technological development, hospitality industry took a new shape and the purpose of these accommodations shifted from social to commercial benefits. Following table shows the number of hotels and number of rooms available in India:

Table 10.2: Number of Approved Hotels and Availability of Hotel Rooms

Category of Hotels	<b>Number of Hotels</b>	Number of Rooms		
One Star	67	2537		
Two Star	307	8446		
Three Star	869	36585		
Four Star	157	12059		
Five Star	149	17144		
Five Star Deluxe	153	34187		
Apartment Hotels	8	756		
Time Share Resorts	1	62		
Heritage Hotels	146	3879		
Silver Bed and	469	1540		
Breakfast				
Unclassified	156	800		
Total	2482	117815		

Source: India Tourism Statistics 2011, Ministry of Tourism, Govt. of India

Presently there are 1702 classified hotels with a capacity of 1,10,958 rooms in the country. The hotels sector comprises various forms of accommodation, namely star category hotels, heritage category hotels, timeshare resorts, apartment hotels, guest houses, and bed and breakfast establishments. In India hotels are classified into six categories: Five star deluxe, Five star, Four star, Three star, Two star, One star. These are mainly situated in the business districts of metro cities and cater to business travellers and foreign tourists. These hotels provide standardized services and are considered to be expensive. These account for about 17.7% of the industry.

#### 10.6 EMERGING TRENDS IN HOSPITALITY INDUSTRY

today are much more than just a place to sleep. Global business conditions, lifestyle changes and higher disposable incomes have resulted in shifting travel preferences. Travellers are looking for 'out-of-the-box' experiences. Travel service providers are offering niche, customized tourism products. This trend is equally visible in the hotel industry.

#### **Innovation:**

The hotels industry is developing on the lines of that innovation is key to survival. With growing demands of customers and to offer novel experience to the guests the hotels are offering unique accommodations. Homestays, heritage hotels, boutique hotels, houseboats, treehouses, luxury trains are some of the good examples of unique products of hospitality.

Homestays give the tourist an opportunity to stay with the host family and learn about the place, culture, traditions and family. The visitors are engaged in activities like exploring a coffee plantation in Kerala, watching a polo match in Rajasthan, herding animals in remote northern India, village visits, picnics, and temple tours. The homestays are economical than hotels. Kerala, Sikkim, Himachal Pradesh are offering quality homestays in India.

Heritage hotels are hotels in palaces/castles/forts/havelies/ hunting lodges/ residence built prior to 1950. Heritage hotels give royal treatment to their guests by offering royal menu; the interiors and the ambience of rooms give royal feeling. Above all the guests get a chance to stay in the actual palace where once kings had their home. Rambagh Palace in Jaipur, Umaid Bhawan Palace in Jodhpur, Taj Lake Palace in Udaipur are examples of heritage hotels.

Boutique hotels is a term popularized in North America to describe intimate, usually luxurious environments. Boutique hotels are generally small and associated with being design oriented. These hotels are furnished in a themed or stylish manner. Boutique hotels focus on their customers by offering services in a comfortable, intimate, and welcoming setting.

Houseboats are luxurious floating hotels. The houseboats offer comforts of a good hotel including furnished bedrooms, modern toilets, cozy living rooms, a kitchen and even a balcony for angling. In Kashmir they are known as shikaras and in Kerala they are known as kettuvallams. Tree houses are unique accommodation on trees in natural environments and thus an absolute delight for nature lovers.

Luxury Trains are moving hotels. Like Palace-on wheels is a rotel. Palace-on-wheels has fourteen coaches named after former Rajput States. It has luxurious room decorated with Mughal and Rajasthani style of art. The train has two lavish restaurants "The Maharaja" and "The Maharani" serving Continental, Chinese, India and Rajasthani cuisines.

#### **Investment in smaller cities:**

Hotels are predominantly found in metropolitan cities or tourist cities like Delhi, Mumbai, Chennai, and Kolkata. But now because of rise in business and leisure travel to smaller cities such as Udaipur, Thiruvananthapuram, Bhubaneswar, Pune, Kochi, Chandigarh etc have increased demand for quality hotel rooms in these cities. Hospitality chains are increasing their presence in smaller cities.

# **Diversification into new segments:**

Many hospitality chains that were earlier focused only on the luxury segment are now diversifying into new product segments, such as budget hotels and serviced apartments, in order to reduce risks. The Indian Hotels Company Limited (IHCL), a unit of Tata Group known mainly for its Taj luxury hotels has ventured into economy segment by opening Ginger Hotels. Accor has announced plans to introduce its budget hotel brand, Formule 1, in the country.

# 10.7 HOSPITALITY MARKETING - MAJOR DECISIONS

At the stage of designing and delivering the hospitality service, hospitality marketers are faced with the following decisions:

- What are the satisfactions that should be delivered through the product,- both tangible and intangible dimensions?
- What tangible form should the product take?
- Should a single item or a line of related items be marketed?
- Whether to market the product independently or as a part of a package of travel related products or both? How to select different target segments for each of these forms?
- How to augment the product and differentiate it from its competitors?

- How to define, develop promote and communicate the image and atmosphere as directed by the market positioning objective?
- How to price the product and what importance to be assigned to prices in marketing communications?
- Whether to market services directly or indirectly or both. In international tourism the services of hotels are usually marketed through tour operators, while direct marketing may be preferred for the local customers.

#### 10.8 MARKETING MIX FOR HOSPITALITY INDUSTRY

Once a company has analyzed and collected the information about its business environment and its markets, it is time for the company to consider its marketing mix strategies. In essence, marketing mix is a combination of elements that require a company's attention when bringing a product or service to the market.

For instance, we will need to consider the types of promotional efforts that are effective for our newly introduced spa services in the hotel. In this example, decisions about our promotional efforts are one important element of the marketing mix strategies. Apart from promotion, what would you consider to be important when addressing strategies for the hotel's spa services? Yes, you may also want to price the services carefully so that you are not overor undercharging the customers, and we refer to such pricing decisions as the price mix strategies.

Expanding 4 Ps to 8 Ps in the Marketing Mix especially in hospitality industry, Traditionally, companies need to formulate their strategies around the following marketing mix:

- 1) Product mix;
- 2) Price mix;
- 3) Place mix; and
- 4) Promotion mix.
- 5) People Mix
- 6) Packaging Mix

# 7) Programming Mix

#### 8) Partnership Mix

The 8 Ps framework calls upon marketing professionals to decide on the product and its characteristics, set the price, decide how to distribute their product, and choose methods for promoting their product. They also need to consider people (employees and customers) who are involved in the service delivery process, how to package the product and service, what kind of programming to offer to the customers, and who you would like to partner with to generate more sales

We will discuss each of the 8 Ps in the marketing mix in the following section.

**The first P, Product:** This is the most important element in the mix: you will need a product or service that fills the needs and wants of the consumers. Without it, the rest of the marketing mix would not be able to carry their functions effectively.

In the manufacturing industry, once a product is made in the factory and shipped to the retail shop, there is always not much of contact between the customers and the manufacturer after that. However, in the hospitality industry, it is not so clear cut. We involve customers in the process of service delivery and sales transaction. For instance, we make the food when the customers waiting in line at the McDonald's, ring up the sales, and they take away their food to find seats. Customers to fast food outlets like McDonald's is expecting a meal that is consistent in its quality, fast service, clean environment and affordable.

Essentially, this is an example of a food service company offers customers a combination of product, service and facilities to its target customers to fulfill their needs and wants. Customers have different expectations with products and services in different settings (i.e. Place, Packaging, Programming, People, etc.).

However, in the service industry like hospitality and tourism, what we offer in terms of product is largely intangible. In fact, in the hospitality industry, our products are mainly in the form of services, which make the product of the industry quite unique as compares to other industries. This is the experience and service that you have paid for, for example, taking a vacation trip to Europe. Once the trip is over, you are unable to take the product away except the pleasant experience that lingers on.

This is the same when you go to a fancy restaurant in the IFC (International Finance Centre) Mall or having high tea in the Peninsula lobby, you are not only buying the meal (Product) but also experience, the ambience, decor and the service that are provided by the restaurant.

**Second P: Place** After the Product, Place is another important aspect in the marketing distribution channel. The decision on the Product and Service to sell determines the location that you select. For example, you would only find Four Seasons Hotels and Resorts in major gateway cities around the world. Why? This is because only these cities can afford enough rich clientele that appreciate its product and services and willing to pay the premium.

Similarly, for a restaurant that locates in a prime "A" location is definitely attracts more foot traffic than a "B" location on a side street. On the other hand, there are also times that location determines the product or service that you would offer. Hotels built as center city hotel, resort hotel, airport hotel or a motel along the highway are pretty much determined by the locations that they are on. This in turn dictates the type of clientele that these hotels will attract. Similarly, the recently opened Asia Expo in Lantau Island definitely attracts different set of customers than the one that Hong Kong Convention and Exhibition Center at Wanchai due to different locations.

There are many factors to consider when we determine the right location for our hotels, restaurants or theme parks. These factors include, accessibility, traffic pattern, supporting infrastructure, establishments (e.g. hospitals, schools, office buildings, residential and etc.) in the vicinity, demographics and income distribution of the people living in the area. If you choose to put your restaurant next to an office building, a factory, a hospital or even a school, you are guaranteed to have businesses from these establishments.

We also need to consider number of direct competitors in the radius where you want to draw your customers. For example, Imagine an exotic resort located at a remote area where there is no good infrastructure to support it. People cannot get to it easily, surely it will not be as crowded as it wishes to attract. Moreover, location does not mean that it has to be stationary and permanent. Sometimes, the Place comes to your doorsteps, such are the cases of pizza or KFC delivery. We can also expand the business beyond the Place (on premise) by having facility built in to facilitate customers do take-out orders.

**Third P: Promotion** Now that we have the product that the consumers want and good location to sell it, we need to consider the third P in the Marketing Mix: Promotion. The promotional tools include: Advertising, sales promotion and merchandising, personal selling, and public relations. Each of the tools has its functions, cost and disadvantages.

Hospitality organizations can consider these tools to match their product nature, the brand image and the stage of life cycle.

1) Advertising is the communication to target markets that are paid for by hospitality companies. It ranges from television commercials, to radio and Internet advertisements, through print media such as newspapers and magazines, and billboards. The type of advertising that you use to promote your product will depend on your marketing budget. Each of these forms has its advantages and disadvantages and you have to decide what suits your product the best. Some types of advertising, like television commercials are very costly while other types like the company website on the Internet can be relatively cheap. It also depends on the economy of scale if you have many hotel properties.

With the 250+ McDonald's restaurants in Hong Kong, it is economical to share the advertising cost. Among the TV commercials would be prohibitive if you only have a single hotel or an independent restaurant. Through advertisement, you can build a brand image, increase the awareness of the product or the sales promotions of the product. Moreover, the type of advertising that you use when you first introduce your product to the market may be different when your product is at its maturity stage of the product life-cycle. This is because you want to send different messages about your product to your consumers during the stages of its life cycle.

2) Sales promotion and merchandising is a short term inducement to motivate an immediate purchase of a product or service. You do this either to introduce a new product to the market or to boost sales of existing product. Sales promotion tools include offering discount coupons, contests and sweepstakes, free samples, and premiums. In the hotel industry, a "buy three get one free" offer for dining at a hotel for dinner buffet is an example. Some hotels have the "Happy Hour Drink Buffet" where diners can enjoy the all-you-can-drink beverages for a special price. This is usually effective in creating excitement about products among the guests.

Similarly, restaurants may offer "early bird" special to senior citizens if they have their dinner before 7:00 p.m. so to generate business during slow meal period

3) **Personal selling** is the interpersonal process of where a sales person does his best to persuade the consumer to purchase his product. The sales force of a hotel may contact its corporate clients from time to time to promote hotel rooms, banquet service and/or meeting spaces. They also do cold calls to potential customers. These sales calls give the hospitality

firm exposure and provide information to potential clients with arrangement of conference and banquet functions. They can also answer questions the clients may have and for better understanding of their products or services.

4) **Public relations** is the communication that results from activities organized by a hospitality or travel organization which it does not directly paid for. These include press releases, sponsorship deals, exhibitions, conferences, seminars or trade fairs and events. The function of public relations is to have a good relationship with all the stakeholders that it serves. Different from advertising or personal selling, there is usually no direct sales result from activities of public relations, but the impact is more of long term.

For example, the Public Relations department of a hotel usually has close relationship with reporters and invites them to sample new product or campaign so they can write feature articles about it. Hong Kong Tourism Board may invite travel writers in target markets to have a familiarization trip to Hong Kong so they can write travel articles when they return to their home countries. Ronald McDonald's House of Charities is part of the public relations of McDonald's.

**Fourth P: Price** How much do you want to sell your product and service? Or put it another way: how much should you charge that you think your customer would pay and yet you still make a profit? Price is the monetary value that you charge to cover the cost of the product plus the other costs associated with the product, such as labor cost, promotional cost, etc., plus a profit. The decision on pricing would make or break your business.

Consider this: If your price cannot even cover the cost to produce it, you will operate in a loss and eventually go out of business. On the other hand, if the price you charge is so high that it may drive you out of the market. Price also conveys the message to the consumers that indicates the price-quality relationship: The higher the price, the better the quality. You also pay for the brand name rather than just the product itself. For example, consider a Rs 200 hotel room per night versus staying in a hotel room that charges Rs 2000. What is the difference of expectations for the customer who pays for the Rs 200 hotel versus the one who pays Rs 2000 a night?

Often times, customers are willing to pay premium for a product that they perceive to be of good value. The closer the price to value relationship, consumers are more likely to be satisfied and likely to have return purchase. For example, a Valentine's Special for a romantic dinner at a five-star hotel's restaurant is often fully booked even though the price is several times higher than in regular time. We can also use pricing as a promotional tool.

**Fifth P: People** Imagine this: With the right product, superb location and a price that is right for the target market, an effective promotional tool to reach the market with the right message, customers are at your door to buy your product or services that you have to offer. This is a scenario every merchant and company would like to see.

Here comes the moment of truth. Customers come with their expectations of the product and services. How their expectations are met, whether customers enjoy their visit, have a good experience and vow to return to your property will entirely depend on one thing: your employees. We all know that hospitality industry is a people business, where service is provided by employees within the organization to their customers. People in the hospitality marketing mix means employees as well as customers.

In the hospitality and tourism sectors, employees must do two things:

- 1) To provide good product to customers such as: meal, room, airline seat, holiday package, rental car and etc.
- 2) To provide good service of a standardized service quality.

The quality of the product is very important but the quality of service is equally important. For 5-star hotels, Grand Hyatt Hotel and InterContinental Hotel may have similar hardware in terms of facilities (fancy lobby and elegant ballroom, swimming pool and spa, diverse food outlets, etc.), however, what makes it different between the two hotels may lie in the personalized service that its people deliver.

**Sixth P: Process:** The next foremost thing important in the hospitality industry is process. Right from you the way you welcome your guests in the reception till you say bye when they leave your hotel, how do you and your staff behave with the customers affect the business of a hotel. In hospitality industry customers give more importance to process than price. The significance given to quality should be demonstrated through process. In hotel industry many operations has to be carried out in presence of guests. Hence these processes must ensure a sense of quality and commitment.

For example, The porters should immediately take the luggage of the tourists, offer cold water on their arrival. Put purified water in water jug or provided branded mineral water. Attend immediately after you receive a phone call from a room.

**Sixth P: Physical Evidence:** In service demonstrating quality is quite difficult. Unlike product

hotel service is intangible. The physical evidence can effective showcase the commitment towards quality to the customers.

For Example, It is not enough, if you keep the rooms clean. The reception, portico must also be clean. The guy at the reception counter must be well dressed. Have a list of prices of different types of room instead of telling orally. Give a list of turist spots in you city for the outside visitors.

#### 10.9 CASE STUDY

Four Seasons Hotels and Resorts is a hospitality organization that embraces the marketing concept. The goals of Four Seasons are to achieve a fair and reasonable profit to ensure the prosperity of the company and its shareholders, as well as to offer long-term benefits to its hotel owners, shareholders, customers and employees. The company satisfies the needs and wants of its customers by creating properties of long-lasting value using superior design and supports them with exceptional personal service experiences. Four Seasons highly believes that the united efforts of all its employees are the key to satisfying the customers; therefore it is important for all employees to work cooperatively together and respecting each other's contribution and presence. As a result, there is a famous saying within the organization, "we seek to deal with others as we would have them deal with us."

Examine the factors affecting the success of a hotel

10.10	NOTES				

<del></del>

#### 10.11 SUMMARY

Hospitality marketing is unique because it deals with the tangible product, like a bed in the hotel or food in the restaurant, but it also deals with the intangible aspects of the hospitality and tourism industry. It is about the experience in a trip and social status it brings eating in a fine-dining restaurant. Hospitality marketing is very critical in the success of any hospitality and tourism product, organization and tourist destination. Proper marketing effort promotes a product or service that fills the needs and wants of the consumers and at the same time, bring profits to the organization or country that features it.

#### 10.12 KEY WORDS

Tourism, Travel service, aviation logistics, tourism marketing mix

## 10.13 SELFASSESSMENT QUESTIONS

- 1. Define tourism. Explain the features of tourism marketing
- 2. Discuss the tourism marketing segmentation
- 3. Give an account on aviation
- 4. Explain travel services

### 10.14 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management : Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# UNIT 11: MANAGEMENT OF TOURISM AND TRAVEL SERVICES

# **Structure:**

11.0	Objectives
11.1	Introduction
11.2	Tourism as a service Industry
11.3	Factors Governing Demand for Tourism
11.4	Tourism marketing
11.5	Features of Tourism Marketing
11.6	Tourism Marketing Segmentation
11.7	Marketing Strategies for Tourism
11.8	Tourism Marketing Mix
11.9	Role of the Government in Indian Tourism
11. 10	Travel Services
11.11	Aviation Industry
11.12	Notes
11.13	Summary
11.14	Key Words
11.15	Self Assessment Questions
11 16	References

#### 11.0 OBJECTIVES

After Studying this unit, you should be able to:

- Explain the features of tourism industry;
- ➤ Identify the major components of tourism marketing mix;
- Describe travel services marketing and
- Discuss about aviation industry.

### 11.1 INTRODUCTION

Tourism is one of the most exciting and progressive industry in the world. Tourism benefits other service sector industries which include transportation services such as airlines, cruise ships, and taxicabs; Hospitality services, such as accommodation, including hotels and resorts; and entertainment venues, such as amusement parks, casinos, shopping malls, music venues, and theatres. Tourism industry has made rapid advances in recent years and it is one of the most competitive industries that has the ability to adapt constantly to customers' changing needs and desires. The growth potential that the Tourism Industry possesses has now been recognized for special attention by both-the Government as well as the private sectors. It is, however, to be noted that in India the educational system potential of tourism has remained an underdeveloped discipline. Simultaneously, not much effort has gone in creating awareness among the masses about tourism or in promoting research on the various effects of tourism National Action plan for Tourism recognizes the potential of Tourism Industry by admitting that it is capable of generating employment (direct and indirect). Tourism means movement of people away from their normal place of residence and work for a period of not less than 24 hours and not more than 1 year.

#### 11.2 TOURISM AS A SERVICE INDUSTRY

Tourism in service industry contains other allied activities, which taken together form the tourism product. There are three major sub-industries in tourism product development: (i) tour operators and travel agents, (ii) hotels and caterers, and (iii) transportation. The product is not confined to transportation and accommodation but includes a large array of services ranging from insurance to entertainment to shopping. Demand generation is dependent on the convincing

communication skills at the macro-level (country) and also at the micro-level (Hotels, Shopping Malls).

Tourism accounts for 9 percent of world trade. Bulk of the business is in Europe and North America. Only 1/8th of the market is shared by the other world regions; of late Third World countries are registering higher growth rate in tourism. Due to the characteristics of inseparability, the product 'tourism' cannot be experienced before purchase. However with the help of virtual tours, this can be overcome to some extent.

#### 11.3 FACTORS GOVERNING DEMAND FOR TOURISM

Tourism demand originates from both individual tourist motivations and the economic, social and technological factors. These include income levels, leisure time, mobility, growth of business and motivation. Increasing income levels, more leisure time, increased mobility, and increasing volume of transnational business and attendant international travel have contributed to spurt in tourism-related demand. Even with all these, the traveller should have the motivation for touring. This may spring from a variety of needs. According to Smith', a tourist can be classified into seven categories:

- 1. Explorer very limited in number. These tourists are looking for discovery and involvement with local people.
- 2. Elite people who favors special, exclusively personalized trips to exotic places.
- 3. Offbeat such travellers are filled with a desire to get away from the usual routine life.
- 4. Unusual visitors who look forward to trips with peculiar objectives such as physical danger or isolation.
- 5. Incipient mass a steady flow, travelling alone or in small organized groups using some shared services.
- 6. Mass the general packaged tour market, leading to tourist enclaves abroad.
- 7. Charter mass travel to relaxation destinations, which incorporate many standardized, developed world facilities.

Each of the categories has an impact on the host society and destination. 'Cohen' has suggested a typology to describe what tourism means to different people. They may be:

1. Recreational one of the commonest forms; objective of travel here is to relieve the tensions and strains of work; involves no deeper significance.

- 2. Diversionary when the visit is a true escape from the boredom and routine of home life.
- 3. Experiential the tourist here is a modern pilgrim looking for authenticity in the life of other societies because he has seemingly lost it in his own.
- 4. Experimental where the tourist wants to experiment with lifestyles other than his own.
- 5. Existential the tourist who actually acquires a new spiritual center as a result of the travel experience.

## **Factors affecting Tourism Destination Decisions**

- 1. Attractions may be natural (land forms, flora, fauna) or man-made (historic or modern) or by reason of cultural or sociological destinations (music, art, folk lore).
- 2. Transport tourism growth is closely related to the supply and extent of development in transport systems. Certain Third World destinations and certain locations within these countries are now in an advantageous position, by easy access to the world air routes.
- Accommodation a critical component of the supply factor. It can be further classified into commercial sector hotels, guest houses, holiday camps, and private residences or camping/ canvassing sites.
- 4. Support and auxiliary services cover a large array of supporting services such as shops, restaurants, banks and medical centers.
- 5. Physical and communication infrastructure to make available the facilities noted above, the infrastructure requirements needed are covered under this head, e.g., it could be roads, airports, electricity, or sewage disposal. These are generally provided by government because of high capital costs.

#### 11.4 TOURISM MARKETING

Tourism marketing is still an underdeveloped area and is often confused with selling. The tourism industry is comprised of small enterprises (travel agencies, tour operators, hotels, transportation etc.) and few among them actually adopt marketing whereas selling is done by all. However, the way tourism market is maturing, the relevance of marketing is being acknowledged more and more as an important activity for the success of the enterprise. This is also because

competition is increasing. In the tourism markets (tourist generating areas or countries) such competition in getting intense among:

- Countries to market their destinations,
- airlines to market their seats,
- hotels to sell the rooms, and
- tour operators to market the packages, etc.

A similar situation is witnessed at the destinations where competition is emerging in practically every service sector, among guides and escorts, restaurants, hotels, transporters, shops, etc. In fact it should be remembered that there is a tourism market where demand and supply have their role to play and the linkage between them have a hearing on marketing. Keeping in view the nature of the tourism product a more professional approach to marketing is required by all the players in tourism i.e. the government, tourism industry and the host population. In today's tourism business, marketing is not a requirement of large players like airlines or hotel chains only but even the smallest enterprises (like small travel agencies, tour operators, small restaurant etc.) requires it.

#### 11.5 FEATURES OF TOURISM MARKETING

The marketing of tourism is different from other products because tourism is a service product where instead of selling physical goods an intangible experience is sold.

Here we are discussing certain aspects of the tourism product:

- It is not possible to evaluate or demonstrate the tourism product in advance. This is because the services are consumed and felt at the same time. However today virtual tours are possible.
- The tourist not only buys the product but also feels the product and is involved in it.
- The tourism products cannot be stored.
- The tourist buys the experience and does not own the product.
- The tourism product is a combination of several services.
- In the designing and packaging of a tourism product a number of intermediaries are involved. Bad experience at one level can spoil the entire image of the product or service.

• The demand in tourism in highly elastic and seasonal in nature.

Some of the problems faced by the tourism industry for the purposes of marketing are there because of its lack of efforts in the area. For example, few of the industry go for market research as the industry is dominated by small business which lacks in both expertise as well as resources for adopting a marketing approach. The presence of too many intermediaries effects quality controls and leads to consumer dissatisfaction. The resource crunch effects the marketing efforts, particularly for making a presence in the international markets. The approach adopted by the organizations is to deal through intermediaries rather than approaching the market on their own.

The consumer of the tourism products and services in future is going to be different from that of today. The emergence of specialized tourism is going to make more demands on the industry in relation to the consumer needs. Competition is already on the increasing phase and hence more and more consumer are attracted, satisfaction will be the key to success. A major challenge for tourism marketing is coming in the form of consumer protection law & and eco-friendly destinations.

## 11.6 TOURISM MARKET SEGMENTATION

Market segmentation is the process where by producers organize their knowledge of customer groups and select for particular attention, those whose needs and wants are best met.

## **Need for Market segmentation in Tourism**

The marketing objectives of any organization (Department of Tourism, Tour Operator, travel Agency, Hotels, Restaurant etc.) in Tourism include

- Understanding the tourists' needs, wants, tastes and attitudes.
- Achieving sustainable growth in tourist arrivals.
- Increasing tourists traffic during best seasons.
- Attempting to increase the length of stay of tourists.
- Dispersing tourists to new destinations.
- Increasing their own profits, image and popularity etc.

For achieving such objectives, it is important to know the markets which the organization wants to cater. In its absence, the focusing can be wrong. This in turn will affect the entire marketing

strategy, say from product design to distribution and yields. The term, market can be used in various respects. For example it can be used to refer to:

- Tourist markets i.e. the tourist generating countries or regions,
- A network of intermediaries who buy and sell your product, or
- The nature of demand for your service product, say, market for the hotel or the airline.

The market for a product further relates to the functions served by the product and the other competitive products. At the same time, we know that a market consists of buyers or prospective buyers. Every organization likes to get as many buyers as possible. However, it is not feasible to reach all prospective buyers because of their wide dispersion and varied buying requirements. In fact the buyers or customers differ from each other in many respects like different:

- Needs and wants,
- Purchasing power,
- Buying attitudes,
- Holiday tastes, and
- Motives for travels, etc.

They may be, and in tourism we know they are located in different regions, Hence, the organization, instead of competing everywhere, need to identify the most attractive customers that it can serve effectively. In other words, the organization needs to focus its efforts in marketing to a well-defined group of potential customers.

This is where an understanding of market segmentation becomes necessary.

# **Criteria for Market segmentation:**

According to Kotler, there is no single way to segment a market. A marketer has to try different segmentation variables, single and in combination, hoping to find an insightful way to view the market structure. The major criteria used for segmenting the market for tourism products and services are:

- 1. Geographic segmentation
- 2. Demographic segmentation

- 3. Psychographic segmentation
- 4. Behavioral segmentation
- 5. Price segmentation

## **Geographic Segmentation**

This is the simplest form of segmenting the market. Here, the market or the target market is divided into different geographical units such as nations, states, and regions. The firm may decide to operate in one or more than one geographical areas. Identifying the geographical location of the tourists i.e. their place of residence helps in defining the segments. For instance, for the purpose of overseas tourism marketing, the department of tourism, government of India, has divided the overseas markets into the following regions:

- 1. USA
- 2. UK
- 3. South East
- 4. Middle East
- 5. Europe
- 6. Far East

Geographic segmentation is also done as per the nature of the tourism product and nature of tourist. For example mountain resorts and Hill stations will be marketed not to the tourist of Switzerland but in the countries which have no mountains. Similarly the desert safari of Rajasthan is marketed in countries like Germany, France, or UK which have no deserts. The situation in Domestic tourism marketing is no different. J & K Tourism will market its products in states like Gujarat, Rajasthan, or Madhya Pradesh and not is Himachal Pradesh.

## **Demographic Segmentation**

Demographic variables include factors like age, gender, family size, family life cycle, income, occupation, education, marital status, religion, race, generation, nationality, language and social class. Since consumer needs, wants, and demand patterns are directly linked with demographical

variables, this method of segmentation is popular among marketers. The tourism market is divided into various groups keeping in view the demographic variables. The demographic segmentation is probably the one most frequently used method of market segmentation because of two reasons:

- 1) Consumer wants, preferences, and usage rates are associated with demographic variables.
- 2) This method is easy in measurement and interpretation of the data.

Age is an important factor while segmenting the market as demand and brand choice of tourist change with age. For example tourist of age group of 25-35 year prefer to visit adventure place while tourist of age group of 50 and above prefer to travel at historical and spiritual place. Income based segmentation has a direct bearing on the brand choice behavior and lifestyle pattern of tourist. For example, tourist with higher income group prefer to travel Rajasthan by 'palace on wheel' while tourist with lower income group travel in sleeper coaches. It is seen that majority of tourists who travel to long distances like India are DINKs, (Double Income Non Kids).

# **Psychographic Segmentation**

Under this category of segmentation buyers are divided into different groups on the basis of their social status, life styles, and /or personality characteristics. For example, by using income and occupational variables the social status is segmented into upper, upper middle or lower classes. Life styles can be determined on the basis of interests, activities and product preferences. Similarly, marketing is also done keeping the personality characteristics in view. For example, adventure sports related tourism products will target the tough and strong or adventure seekers only. However, it must be noted here that tourists within the same demographic segment may have a different psychographic profile. Tourists are segmented on a psychological basis with an idea that among certain types of tourists there can be found some common attitudes say among the age group of 18-26 there may by some who avoid adventure tourism and want to have a vacation full of leisure. Such group will form one while the other may consist of those who enjoy risks and look for adventure. Such mental attitudes determine the buying patterns of the tourists and hence arises the need for psychographic segmentation.

## **Behavioral segmentation**

In this type of segmentation, prospective buyers of tourism products are segmented on the basis of their knowledge, attitude, use, or response to the tourism product. A number of behaviorist variables are used for market segmentation:

- (i) **Occasions**: Buyers may be divided according to occasions for which they may need a product. For example, a person usually targets on an occasion concerning business, vacation or family. Thus, we segment tourists as business tourists, holiday tourists or VFR (Visiting Friends and Relatives) tourists. Imaginative tour operators have, therefore, created packages like honeymoon tours for those who have recently been married, natural therapy or Ayurvedic treatment tours for those who are looking for improvement of health after illness or stressful life; or spiritual tours to Ashrams, etc. for those who look for spiritual solace.
- (ii) **Benefits**: Benefits segmentation identifies the:
  - Major benefits that the consumers look for in the products,
  - Kinds of people who look for each benefit, and
  - Major brands that deliver each benefit.

According to Kolter many products are made up of three "core benefit segments"-

- Quality buyers:- A quality buyer is more concerned by the product image and not the cost.
- Service buyers:- A service buyer would choose a product that provides a good service.
- Economy buyer:- An economy buyer would like to keep the cost down.

## **Price Segmentation**

Price ranges often come handy on segmenting the tourism markets for example these are:

- Those who are high spenders and are prepared to pay high prices. For example, tourist who stay in five star Hotels, travel by Air in luxury class or by charter air crafts etc.
- Those who want to take a low priced vacation.
- Those who may take a moderately priced vacation.

### 11.7 MARKETING STRATEGIES FOR TOURISM

# Some of the basic strategies which could be adopted are-

- I. Market penetration used by new entrants to gain a foothold in the market. It can be through creating a differential advantage in pricing or promotion, or both. Or it can be by finding a specific niche identifying specific destination or package for a specific need segment.
- II. Market extension: This entails reaching new classes of tourists or by adding salient product characteristics to the existing offer. The objective is to enlarge the appeal. The strategy may help in adding new segments over a period of time, which may be profitable on high growth segments. According to Meidan and Lee, the selection of the appropriate strategy would depend on four factors:
- 1. The size of the segment
- 2. Tourists' sensitivity to differences between the product packages and product components
- 3. The distinctiveness of the tourist establishments, i.e., hotels, travel agents and tour operators.
- 4. Competitor's marketing strategies.

#### 11.8 TOURISM MARKETING MIX

After analyzing the marketing environment and prepare a plan for tourism marketing, the marketer has to develop suitable marketing mix for tourism marketing. Few places having religious importance could attract tourists without any promotion. Even the basic facilities may not be available properly there. For ex going to Kedarnath, Amaranath, Manas Sarovar etc may be very risky and tedious. But still people go there. For such places marketing mix may not be required. In all other cases, all the elements of service marketing mix such as product, price, promotion, place, physical evidence, people and process should be appropriately put together for better appeal to the target customers. It is concerned with to achieve goals by analyzing opportunities and threats in the environments and interpreting them taking into consideration strengths and weakness of internal sources. In order to achieve success, a mix of all these components needs to be developed in such a way that the ultimate mix provides satisfaction to the customers.

1. **Product Mix**: The product here refers to the tourism service offering. It is a non material intangible thing. The task of formulating a sound product mix for tourist organization is found a bit difficult and challenging. Tourists make choice of a product on certain physical

characteristics like attractiveness, facilities available etc. In many places there may be many places of tourism attraction. Then tourism marketer must carefully select places to make a package. For example, During Dasara Season many tourists visit Mysore. At that time tourism department arranges different tours like Jaladharshini (Visiting of places having water like KRS, GiriDarshini (Visiting hilly areas like BR hills,) and Devadarshini (Visiting temple in and around Mysuru.) Branding plays a important role in the tourism marketing.

- 2. Promotional Mix: Creation of awareness has a far reaching impact. The aim of promotion is to inform, to remind and to persuade. To attract tourists from various parts of the World, a powerful communication campaign needs to be undertaken. The success of tourism product to some extent depends in promotional programmes. The promotional efforts of Gujarat Government under Vibrant Gujarat could attract many tourists within and from outside India. There are number of promotional tools available to the tourism marketing which can be combined to create effective promotional programmes. The tools like advertising, sales promotion, word of mouth promotion, personal selling, telemarketing, web based marketing etc are used widely. The design of the message and the selection of media are to be don wisely as it is very crucial in marketing.
- 3. Pricing: Pricing in tourism is a fairly a complex issue as it is a multi segment industry. Pricing approach varies from country to country and also from destination to destination within the country. All pricing strategies can be applied to tourism product. Pricing can be used as motivational tool. Usually the pricing is not done for a product but for a bundle of products here. For example, Europe tour may be of 10 days, 15 days, 1 month, 2 month depending the number cities customers are interested to visit. The marketers should carefully consider the price and value sensitivity of the tourists.
- 4. **Distribution**: A sound distribution system is essential to improve the quality of services or to bridge the gap between the services promised and the services offered. Unlike all other services, the tourism services cannot be brought near the customer, but the customer has to go to the tourist places. The point of significance here is that the marketer can sell the package to the customer at his door steps. In earlier days the tourists had to face many problems after going to a tourist place. They have to go in search of hotels restaurants and tourist spots. They were often cheated by the local people there. Now with the help of internet bookings can be done online. Even the customers can take a virtual tour of a place they want to visit to ensure that they do not miss any importance place there. Beside travel agent and tour operators, there are number of intermediaries in tourism marketing channels.

- 5. People: In tourism marketing, people assume a highly important role. They guide the people in their tours. They serve them and facilitate them. The market must ensure that the contact person, tour guide or the front line people must be highly knowledgeable and well acquainted with the tourist places. They must know the local languages, customs and traditions.
- **6. Physical Evidence**: The office or the website the tourist marketer must have all the relevant information. Photographs of tourist spots, hotels and maps must be available. Feedback of the customers who have already availed the service also plays an important role.
- 7. Process: The process here refers to tour. In case of complete tour packages, care must be taken to ensure that the customers are comfortable. They are given good facilities; sufficient time should be giving for visiting places, shopping etc. The behaviour of tourist guide is also a part of the process here. Good quality vehicles must be used to ensure smooth transportation.

## 11.9 ROLE OF THE GOVERNMENT IN INDIAN TOURISM

Tourism sector is one of the largest employment generators in the country and plays a very significant role in promoting inclusive growth of the less-advantaged sections of the society and poverty reduction. Positioning tourism as a major engine of economic growth and harnessing its direct and multiplier effects on employment and poverty eradication in a sustainable manner by active participation of all segments of the society is the main objective of the tourism policy of Government of India. Apart from marketing and promotion, the focus of tourism development plans is now on integrated development of tourism infrastructure and facilities through effective partnership with various stakeholders. The role of Government in tourism development has been redefined from that of a regulator to that of a catalyst.

Foreign Tourist Arrivals (FTA) in India during 2013 was 6.97 million. The Foreign Exchange Earnings (FEEs) from tourists in terms of US dollars during 2013 was US\$ 18.445 billion with a growth of 4.0%.

The government has taken various measures in order to boost the tourism in the country

## 1. Visa-on-Arrival (VoA)

In an effort to promote inbound tourist in the country, the government announced tourist Visa-on-Arrival in 2010. At present it provides Tourist Visa on Arrival facility (TVoA) to the nationals of 12 countries namely Finland, Japan, Luxembourg, New Zealand, Singapore, Cambodia, Indonesia,

Vietnam, Philippines, Laos, Myanmar, and South Korea.. During the period January to December 2013, a total number of 20,294 Visa-on-Arrival (VoAs) were issued as compared to 16,084 VoAs during the corresponding period of 2012 registering a growth of 26.2%.

## 2. Developing Niche Tourism Products

The ministry of Tourism has taken the initiative of identifying, diversifying, developing and promoting niche products of the tourism industry. This is done in order to overcome the aspect of 'seasonality' and to promote India as a 365 days destination, attract tourists with specific interest, and to ensure repeat visits for the unique products in which India has a competitive advantage. Guidelines have also been formulated by the Ministry to support Golf, Polo, Medical and Wellness Tourism

## 3. Incredible India - Bed & Breakfast / Homestay Scheme

The scheme offers foreign and domestic tourists an opportunity to stay with an Indian family and enjoy the warm hospitality and a taste of Indian culture and cuisine in a clean and affordable place. With a view to encourage the growth of such establishments and also to simplify the procedure of approvals, the Ministry of Tourism has recently reviewed the scheme and has simplified the guidelines by amending certain norms.

#### 4. Medical Tourism

Medical Tourism (also called medical travel, health tourism or global healthcare) is a term used to describe the rapidly growing practice of travelling across international borders to obtain health care. Services typically sought by travellers include elective procedures as well as complex specialized surgeries such as joint replacement (knee/hip), cardiac surgery, dental surgery, and cosmetic surgeries.

#### 5. Road Shows

As part of the promotional initiatives undertaken, Road Shows were organized in important tourist generating markets overseas with participation of different segments of the travel industry. The Road Shows comprised presentations on India followed by one-to-one business meetings between the trade delegation from India and the travel trade in the respective countries. Besides, India Tourism Offices in overseas also participated in Road Shows organized by Tour Operators/Travel Agents in countries under their respective jurisdiction.

# **India Tourism Development Corporation**

India Tourism Development Corporation (ITDC) is a Public Sector Undertaking under administrative control of the Ministry of Tourism. The ITDC offers tourism related facilities like transport, duty

free shopping, entertainment, production of tourist publicity literature, consultancy etc. ITDC has played a committed and pivotal social role in the development of tourism infrastructure in backward areas, thereby trying to promote regional balance.

### 11.10 TRAVEL SERVICES

Traditionally it was believed that a travel agent does not create a need but only fulfills a existing need. But now a days that travel agent not only creates need to travel to destinations but give business to hotels, carriers and many others. Travel is largest and fastest growing commercial enterprise in the world. Due to technological development large scale computerization in travel sector has brought about a sense of productivity and efficiency. The technology has changed the travels services. Now online booking are done for travel by road, train and by air.

# **Travel service marketing**

Marketing of travel services is a difficult task though the travel trade in India has received its impetus from the growth of civil aviation in the country. Over promising and under delivering a service can lead to loss of money and loss a client. The ultimate success of the marketing activity in a travel agency depends on how clearly the marketer has understood the service levels his firm can deliver, and how accurately he assesses the factors which make his firm stand out from competitions.

#### 11.11 AVIATION INDUSTRY

Aviation refers to traveling by air. Air transportation provides critical capabilities for a modern economy. Whether it involves passengers or cargo, the ability to quickly and reliably move valuable resources over great distances improves the quality of life and standard of living of people across the globe. While you may be more familiar with the term "aviation" than "logistics," you observe logistics in action any time you travel or purchase a product.

The field of aviation logistics is so large that almost any business organization is directly or indirectly involved in it. The type of businesses and organizations involves logistics managers include communication, consulting, government and military, manufacturing, material handling, merchandising, retail, software and computer service, telecommunications and transportation firms, equipment manufacturers and dealers, print media, public warehouses and wholesale distributors.

Those firms specializing in the movement of goods and people by air, and the large numbers

of companies that support them, represent the area of aviation logistics. India's civil aviation industry is on a high-growth trajectory. India aims to become the third-largest aviation market by 2020 and the largest by 2030.

In 2003 the travel cost by air were significantly lowered. Thanks to Captain Gopinath of Air Deccans, who made air transport a mode of mass travel. The Civil Aviation industry has ushered in a new era of expansion, driven by factors such as low-cost carriers (LCCs), modern airports, Foreign Direct Investment (FDI) in domestic airlines, advanced information technology (IT) interventions and growing emphasis on regional connectivity. India is the ninth-largest civil aviation market in the world, with a market size of around US\$ 16 billion.

The world is focused on Indian aviation from manufacturers, tourism boards, airlines and global businesses to individual travellers, shippers and businessmen. If we can find common purpose among all stakeholders in Indian aviation, a bright future is at hand.

### **Market Size**

In January 2016, domestic air passenger traffic rose 23 per cent to 7.66 million from 6.25 million during the same month of last year. Passenger traffic during the January-December 2015 increased at a rate of 20.3 per cent to 81.1 million from 67.4 million in the corresponding period a year ago. In January 2016, total aircraft movements at all Indian airports stood at 156,048, which was 15.9 per cent higher than January 2015. International and domestic aircraft movements increased 10.6 per cent and 17.5 per cent, respectively, in January 2016.

11.12	NOTES				

<del></del>	

#### **11.13 SUMMARY**

Tourism and travel service is a major industry throughout the world. May countries by realizing the significance of this sector are trying to strengthen it. In tourism marketing, we have tourism destination. There is a need of proper planning of marketing of tourism and travel services. The marketing mix of tourism consists of product mix, promotional mix, pricing mix, place mix and service mix. Marketing of travel service is also a difficult task. To make the travel services marketing successful. Important factors like credibility, confidence, competency and consistency are to be seen with care.

#### **11.14 KEY WORDS**

Tourism, Travel service, aviation logistics, tourism marketing mix

# 11.15 SELFASSESSMENT QUESTIONS

- 1. Define tourism. Explain the features of tourism marketing
- 2. Discuss the tourism marketing segmentation
- 3. Give an account on aviation
- 4. Explain travel services

# 11.16 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology,* Bengaluru: McGraw-Hill, 2010.
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# UNIT-12: MANAGEMENT OF EDUCATION AND OTHER SERVICES

## **Structure:**

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Management of Education Services
- 12.3 Management of Health Care Services
- 12.4 Management of Professional Services
- 12.5 Management of Public Utility Services
- 12.6 Notes
- 12.7 Summary
- 12.8 Key Words
- 12.9 Self Assessment Questions
- 12.10 References

### 12.0 OBJECTIVES

After Studying this unit, you should be able to:

- > Explain the features of Education Industry;
- ➤ Identify the major components of health care Industry;
- > Describe management of professional services and
- > Discuss about public utility services.

## 12.1 INTRODUCTION

In the preceding units you have studied about hospitality industry and tourism industry. In this unit let us discuss about management of education and such other important services which are widely used in economy. Education is considered to be an important measure of human development. Management of education services gives an in depth exposure to the activities involved in the education services. An improvement in education will bring economic growth and progress of a nation. Education promotes innovation. The other few services we are going to study here are health care, professional services and public utility services. Health care refers mainly to hospitals where a patient is in need for medical care goes to stay, Hospital is an integral part of social and medical organization. It provides to the people a complete health care both curative and preventive. Professional services implies to services such as accountancy, consultancy, medicine, research services, legal services and so on which make up a substantial proportion of the economy. These services represent extreme end of the scale with regard to service tangibility. These are the people based service with a high degree of expertise. Public utility services are services like transport, electricity, water supply, postal and so on. These important services which play a major role in economy is owned by state as well as by private players in Indian economy.

### 12.2 MANAGEMENT OF EDUCATION SERVICES

Education is considered as vital ingredient in economic development throughout the world. In India providing education is considered as states responsibility after independence. Both government sector and private sector are playing important role in education sector. However the quality of education provided by government owned education institutes are considered as of lower grade showcased by the poor results in many instances.

Marketing of education is a recent development. Both the government owned and the private education institutions are promoting education in different approaches. The government is involved in inspiring and encouraging people to take up education through different schemes of social reforms by using social marketing strategies. Private and professional institutions are practicing marketing in the true spirit. Image building, brand management, product differentiation, competitive pricing and informative advertisement strategies are used to pull the customers to their institutions.

### **Characteristics of Education services**

- **1. Intangibility:** Education is highly intangible in nature. You cannot measure knowledge in terms of money.
- 2. Variability: It is difficult to standardize the system of education. For eg. Hindi cannot be taught in the same way throughout India. Further regional specific issues should also be included as part of curriculum.
  - 3. Inseparability: The education provider and education seeker must be present for imparting education. However distance education and online education are doing their mights to fulfill the gap left by the traditional form of education.
  - **4. Heterogeneity:** The teaching in different institutes may be different. In the same way with in an institute the teaching from teacher to teacher may vary.
- **5. Difference between customer and consumers:** In education sector, customers who pay for this service are parents while the children who study in a education institute are consumers.

### **Marketing Mix for Educations services**

Marketing mix is controllable tools that institutions use to getting appropriate response from their target markets. The 7ps of Services marketing mix applies well to education also.

**Price:** Price is the amount of money that the buyer, pays to the service provider. Due to heterogeneity of service, prices are determined on the package of services offered. Differential pricing based on the course, institution and the affordability of the consumer different prices are fixed. But the tuition that parent pay for their children's education is the corresponding price in the educational sector. So price involves tuition fees.

**People:** People Factor can be related to all staff, employees and members, including Principal or deputy as well as teachers. In fact, people include all members of the school that can serve to student (consumer) and parents. People factor as a vital factor for the successful delivery of the service is very important. Of course it is related to the ability, skills, experience and knowledge of teachers. The most important aspect that affect on parental satisfaction is Teaching features that lead to learning

**Promotion**: Promotion may be key element in the school marketing mix. Indeed, most marketing efforts that are performed at schools are classified as promotion. The purpose of promotion is communication with the target markets. The same concept today plays an significant role in creating competitive advantage for organization against competitors. Plan will not succeed without effective promotional plans. Most schools in the world use promotional activities such as PR. However, television and Press advertising is less common in the educational sector.

**Public Relation (PR):** PR is creating of favorable school mentality among different groups of the target market, without having to pay for it. PR encompasses a wide range of activities, Such as media relations, interviews, . The role of PR is, to enhance the marketing efforts in the schools. Important goal of it, is shaping a way to introduce and create public awareness about the achievements of the school. One of the most common types of non media public relations is PTA (Parent Teacher Association)

*Expo:* Expos is common among private schools. These exhibitions are part of perception managing of parents. Expos prevent the spread of rumors about schools and will accustom parents with the characteristics of the school and its achievements. Also will expand communicate between the schools and parent.

**Brochure:** Among elements in advertising, brochures are used in schools more than others. Brochures, often are first contact the parents and the schools. It can make possible create and develop a favourable image of the school in parent's mind.

**Physical evidence:** Intensity of intangibility the educational services will be reduced by physical evidence. University facilities and buildings can be considered physical evidence. The first image in the university student's mind will be shaped by this factor. Video projectors and facilities are necessary to present lectures as physical evidence.

The environment where services are to be delivered, ambience, facilities, furniture, lay out, colour lighting, sound effect, appearance, attitude of the teacher or instructor, who delivers the service are the determinants of education service.

**Place:** This factor is related to whether the school is available and will be comfortable to travel there or not. Prospective parents may choose a school and it is a simple reason which school is located near their home. The reduction of parent traveling time to school, will lead to a positive perception and it has a positive impact in improving the school image in their mentality. Many schools would arrange school bus to come out of such problems arising out of place.

Accessibility, location and the means of communication used to disseminate the services are to be planned. In present electronic age, online education and virtual class rooms have become popular.

**Product:** Product in educational sector is related to school facilities such as workshops and training labs, libraries. This element in this sector is similar to the physical evidence. The major factors of selecting university by the perspective students, is the university facilities and the carious courses or subjects taught there.

The education product is a service package consisting of core services, facilitating services and supporting services. The core product benefit is learning. The quality of learning depends upon total service package offered and the participation of the customer that is the student, hence it is to be properly evolved and positioned.

**Process**: Processes are all the administrative and bureaucratic functions of the university which is registration, course evaluation, examinations, result dissemination and graduation. The learning process and social activities are considered as Processes that occur in universities.

It is high involvement service delivery targeting the customers mind. The physical environment, technology and interpersonal attributes of the customers and the service provider are to be properly planned.

## Marketing strategy for management of education services

Marketing strategy needs to be unique in itself as it is an organizational situation specific by keeping in mind the special characteristics of education. Some directions for marketing strategies may be as below.

1. The education institutes must focus on customer satisfaction, not on consumer satisfaction primarily. Hence public relation in terms of PTA plays a very important role. The progress of the wards must be regularly informed to parents.

- 2. Physical evidence demonstrates quality. Hence large labs with sufficient equipments, well equipped library, good number of computers, big sports filed, class rooms with projectors, peaceful atmosphere play a vital role in creating a first impression among the customers.
- 3. Word of Mouth is also highly significant in promoting educational services. Hence the turnover of students may be considered seriously and efforts should be made to solve problems if any.

## 12.3 MANAGEMENT OF HEALTH CARE SERVICES

Health care service denotes hospitals, dispensaries, labs and so on. They have become hub for training and research. Most of the hospitals have education institutes attached. The term management of health care services refers to application of management practices in hospitals with an intention to enrich the potentiality of a hospital for making available to the society the good health services. In India both government and private sector are playing vital role in providing health care service. Polio could be completely eliminated in India because of the government efforts. The government hospitals may be provide cheap or free of cost health care services to the patients while the quality of services in few hospitals may be a question. However government has set up health care units in all most all cities, towns etc for the benefit of public.

There are different types of hospitals which are working in the country. The classification of hospitals can be done on basis of ownership, objectives, path and size.

- **1. Based on Objectives**: Based on objectives the hospitals may be classified as teaching cum research centers, general hospitals or specialized hospitals.
- **2. Based on Ownership**: Based on ownership hospital may be government, semi government, voluntary agencies, private charitable, chain of hospitals.
- **3.** Based on Path: Based on path, hospitals may be allopath, ayurvadic, Unani or other.
- **4. Based on size**: Hospitals can be varied from a one room dispensary to multi specialty hospitals and chains of hospitals like Narayana Hrudayala, Appolo Hospitals etc.

#### **Products and Services**

The products or services in a hospital may vary from one hospital to another. Due to technological advancement, a lot of changes have been taken places in the field of health care services. The testing have become much accurate, the treatments have become much specific, the procedure has become much simple.

## **Marketing Mix for Health care services**

The healthcare marketplace has seen both increased competition and advanced technology. With innovations ranging from MRI imaging to genetic testing, patients have more options than ever before. Small healthcare providers must find ways to stand out from their competitors and inform consumers about how they can offer the best patient experience. To develop a marketing strategy let us concentrate on "4 P's": Price, Placement, Product and Promotion.

#### **Price**

With the high cost of healthcare, price is among the highest concerns for prospective patients, especially those without comprehensive health insurance coverage. Providers should be aware of any opportunities where they can offer the best care at the lowest price. Many providers offer simple tests, such as blood pressure checks, cholesterol tests and HIV tests, at no cost or reduced prices to raise patient awareness of their services.

To overcome the price issue, today health insurance or medical insurance is available. You must have already learnt about insurance in second module. Further medical tourism is growing as a popular concept these days. The health care related charges in western countries is very high. Hence they visit developing countries like India and get the treatments. The total expenditure of coming to and going from India, hospital charges, accommodation and food bill would be moderately less than the expenses that would have incurred in their home countries.

#### **Place**

Vital services, no matter how inexpensive, must be made available to patients to be effective. If the services are only available in locations or during hours where the patients cannot access them, then the patients remain at risk and the providers miss out on the opportunity to treat them. Providers can seek out new locations, expand operating hours, offer walk-in or same-day appointments and reach out into local communities to offer more access to healthcare services and stand out from the competition. Ambulance services help the patients in critical condition to get immediate medical treatments.

#### **Product**

The patient's office visit is a small component of the healthcare services that providers offer. Providers must also deliver products to patients that can improve their quality of life. Products can include medications, testing kits and orthopedic supplies, as well as on-call "concierge" services. Providers must also determine which products and services are suitable to meet the needs of each patient. For instance, the provider must not only determine if the patient needs medication for pain management, but which other products can help that patient deal with their pain. The products include treatment for various diseases, regular checkups, medical examinations, master checkups, family packages and so on.

## **Promotion**

The promotion of a healthcare provider's service is the most important aspect of the marketing mix, yet it is often overlooked. Many larger providers, such as major hospital chains or pharmaceutical manufacturers, use mass media to promote their services. Smaller providers can promote their services at a grass-roots level. An example of this community involvement is the Colgate. It created colorful and educational brochures to promote their efforts to provide dental care to the area's low-income children.

However in Health care sector word of mouth publicity plays an important role. Many hospitals tie up with the insurance providers to offer cash free services. The expenses would however be borne by the insurance company. Hospitals can also tie up with big companies, educational institutes in the nearby area. The ethical issue also plays a major role in regulating promotion efforts

## 12.4 MANAGEMENT OF PROFESSIONAL SERVICES

Stretching out specialized services is not a new phenomenon. It is as old as our culture and civilization. It is proved that in ancient days saints, gurus, prophets extended their meditated views for the welfare of masses but without charging any fee. Though there are many professional services but the management consultancy services are referred as and when necessary while discussing about the professional services in this unit.

## **Characteristics of professional service providers**

Professional services encompass a broad range of activities but all can be generally defined by certain common characteristics.

- 1. Professional service providers are highly trained and knowledgeable in a complex specialist area of expertise.
- 2. Service providers hold qualifications and accreditations within their field of a specialization, without appropriate credentials entre into the field is difficult.
- 3. Service providers should become members of professional society or governing body.
- 4. Professional services are sold to individual clients needs
- 5. The services is highly tangible in nature and difficult for a layperson or typical client to understand and assess in terms of quality and value. As such the services are often costly; the degree of risk to the consumer is also high.
- 6. The people element in the service provision is a critical factor; such services are dependent wholly on the skills and competences of individual professionals. So there needs to be clear focus on people.

## **Need for management of professional services**

Many years ago, professionals could count on their reputations and country club contacts to obtain a steady stream of clients or patients. Today, lawyers, accountants, management

consultants, architects, engineers, dentists, doctors, and other professionals must do extensive marketing to maintain and build their practices.

Several developments during the last few years have accelerated this trend, among them the following:

- 1. **Legal sanctions.** Several highly publicized court cases have opened the door to such previously banned marketing tools such as advertising.
- 2. **Too many professionals.** Law, architecture, dentistry, and other professions have become overcrowded and their members must increasingly compete for customers.
- 3. A declining public image. In an era of consumerism and malpractice suits, professionals are no longer on a pedestal. This condition has made it necessary—and, ironically, more acceptable—for professionals to use marketing to enhance their public images and to improve their clients' and patients' satisfaction.

These developments are pushing numerous professional service firms into the marketing arena.

Professionals of all types now aggressively use marketing tools. For example, many newspapers, magazines, and Yellow Pages directories are filled with advertisements for lawyers, dentists, optometrists, and accountants. At the same time, dental, and tax-preparation clinics have become accepted as part of the suburban shopping center scene.

Furthermore, newsletters, press releases, and other public relations tools are widely used by accounting, law, architectural, engineering, and management consulting firms. And, in a less visible way, professional service firms of all types and sizes are employing marketing research and strategic planning with increasing frequency.

As competition intensifies, many professionals are discovering the limits of conventional marketing wisdom. They are finding that marketing concepts and approaches employed by organizations selling toothpaste, cereal, and other tangible products, or even other types of services, aren't readily transferred to professional services. Indeed, marketing such services *is* different.

## Challenges in management of professional services

## 1. Strict Ethical & Legal Constraints

While constraints on marketing have loosened enormously of late, there are still a host of ethical and legal restraints that require careful attention. They are enforced by national, state, and local professional societies, certification boards, government agencies, and other bodies.

But ethics and standards discourage professional firms from knowingly employing marketing services which, while "pleasing customers," might mislead or eventually harm customers or third parties. Thus, lawyers usually avoid claiming they can win certain types of suits and editorial consultants tend not to guarantee their ability to get articles placed in specific publications. Moreover, CAs typically resist any client pressures to overlook financial irregularities. Such activities would not only hurt the interests of clients or patients, of course, but they could also lead to formal complaints from third parties like investors and insurance companies, loss of licenses or certifications, and financial ruin.

## 2. Buyer Uncertainty

Professional services are what economists sometimes call "credence" goods, in that purchasers must place great faith in those who sell the services. Professional services usually lack many attributes that a buyer can confidently and competently evaluate before or even after making a purchase decision.

Most people are ignorant of professional services and timid when they have to use them. Often they are unsure if they have to use one. Even if they recognize their need for help, they may entertain wrong ideas about what the service should cost and what the professional can reasonably be expected to do for them. Finally, they may not know where or how to get the facts for making a better-informed choice.

# 3. Need to Be Perceived as Having Experience

Because buyers of professional services are often uncertain about the criteria to use in selecting a professional, they tend to focus on one question: **Have you done it before?** People prefer to use accountants and management consultants who have worked in their industry

previously, lawyers who have litigated cases just like theirs, architects who have designed buildings like the one they want to build, and surgeons who have performed the needed surgical procedure hundreds of times. Using an experienced professional makes a risky purchase seem less risky. Among other things, if anything goes wrong, a buyer may avoid being blamed by superiors or family members for carelessly choosing an unproven professional.

This experience requirement creates problems for many professional service organizations. Firms with expertise in limited areas often have difficulty diversifying into new lines of work. And inexperienced professionals often find it difficult to find any work at all. "Newness" in the professions isn't nearly as favorable an attribute as it might be for a soft drink company or an airline.

## 4. Limited Differentiability

The differentiation of products and services is hard for most marketers to achieve, but it is an especially difficult task for marketers of professional services. How do they distinguish their products from those of competitors, especially when many professional services are virtually indistinguishable? Differentiating one accounting audit, title search, or eye examination from another is very difficult. The situation is quite different from consumer products like breakfast cereals, which can be differentiated by simply sprinkling on a new coating, stamping out a new shape, or putting a famous cartoon character on the package.

Many professionals have recently attempted to differentiate their services by using humorous slogans or advertising appeals. Dentists claim they "cater to cowards" and lawyers advertise "no frill wills." But such tactics may not be enough.

## 5. Immeasurable Benefits of Advertising

Advertising is generally a very useful tool for helping an organization to differentiate and sell its offerings. For professional service organizations, it has limitations. Managers should consider carefully the possibility that advertising can backfire. People still are unused to seeing or hearing advertising for many professional services, and they may not like it. Clients, patients, referral sources, and even competitors could interpret advertising by a firm as suggesting that it lacks competence. ("If the firm is so good, it shouldn't need to advertise.")

# 6. Converting "Doers" into "Sellers"

Whether or not advertising is used, personal selling must play a big role in the marketing of any professional service. Traditionally, professional service organizations have left selling almost exclusively in the hands of people who exhibit an interest and a flair for it ("finders"). But increasingly, these organizations are finding it necessary to get broader participation in selling. Clients and patients should be made to the persons who actually perform the services. Customers usually feel uncomfortable buying from people they will never see again or from officials who only sell.

For example, when a UPS service company sends its person for repair of UPS, the service person can be trained to convince the customer for an AMC (annual Maintenance Contract)

## 7. Allocating Time for Marketing

Convincing and training professionals to sell is one matter. Determining the amount of time each professional should devote to selling and marketing is a different, but related, matter. Officials must decide how much of the highly profitable time of junior people—which can normally be billed out at much higher multiples of their cost to the firm than the time of senior people—can be spared for marketing. Officials must also decide how much to limit the hours spent on marketing by senior members, who often have opportunities to make speeches, serve on prestigious committees, dine with important contacts, or take other actions that can support the marketing effort. If too many opportunities are pursued, then other important tasks, such as maintaining or improving the quality of services, may be neglected.

### 12.5 MANAGEMENT OF PUBLIC UTILITY SERVICES

The earning of profit is secondary in management of public utilities. However to grow and provide better services it is necessary to earn a fair amount of profit.

A **public utility** (usually just **utility**) is an organization that maintains the infrastructure for a public service (often also providing a service using that infrastructure). Public utilities are subject to forms of public control and regulation ranging from local community-based groups to statewide government monopolies.

The term **utilities** can also refer to the set of services provided by these organizations consumed by the public: electricity, natural gas, water,

and sewage. Broadband internet services (both fixed-line\_and mobile) are increasingly being included within the definition.

In the United States, public utilities are often natural monopolies because the infrastructure required to produce and to deliver a product such as electricity or water is very expensive to build and maintain. As a result, they are often government monopolies, or if privately owned, the sectors are specially regulated by a public utilities commission.

Developments in technology have eroded some of the natural monopoly aspects of traditional public utilities. For instance, electricity generation, electricity retailing, telecommunication, some types of public transit and postal services have become competitive in some countries and the trend towards liberalization, deregulation and privatization of public utilities is growing, but the network infrastructure used to distribute most utility products and services has remained largely monopolistic.

**Public utilities can be privately owned or publicly owned.** Publicly owned utilities include cooperative and municipal utilities. Municipal utilities may actually include territories outside of city limits or may not even serve the entire city. Cooperative utilities are owned by the customers they serve. They are usually found in rural areas. Private utilities, also called investor-owned utilities, are owned by investors.

Public utilities provide services at the consumer level, be it residential, commercial, or industrial consumer. In turn, utilities and very large consumers buy and sell electricity at the wholesale level through a network of ESCOMS and KPTCL in Karnataka. .

In India the public utility services provided by government alone or with private partnership or jointly by public and private include

- power generation and distribution
- Water distribution and accumulation
- LPG cylinders filling
- Railways
- \* Road construction
  - Road transportation

- Schools, colleges and universities
- Libraries
- Sewage disposal
- **❖** Postal service
- Internet Service
- Telecommunication Service
- ❖ TV and Radio broadcasting service to name a few.

# **Problems of public utilities**

Due to their special features, public utility concerns have to face certain specific problems in connection with the selection of site, size of the business, marketing of services, and organization and management. Some of these problems are described below:

### 1. Plant location:

Usually, a public utility has no choice as to the site for the location of its plant. The choice of location is confined to the city or town for which the concern has been granted franchise.

The plant has to be located at the site fixed by the Government. Public utilities have to depend upon the government for the availability of space as they require large areas for their operations. The convenience of the customers was neglected earlier. However bill payment desks and complaint desks are available near customer location these days.

#### 2. Size of business:

In general the size of a public utility concern has to be quite large. It cannot operate efficiently below a certain minimum size for three reasons.

First, huge amount of fixed capital required for such a concern can be provided only by large-scale enterprises.

Secondly, a public utility concern has to start its operations at a full swing in the very beginning. It is not possible to begin with a small size and to expand gradually like other business concerns.

Thirdly, a single public utility concern is required to supply services to the entire population of a particular area.

# 3. Marketing problem:

A public utility concern has to face little problem in selling its services because it has not to face competition. The services are standardised and essential. There is no need for advertising or salesmanship.

But, a public utility concern must provide efficient and courteous services. In some cases like transport and postal services, the consumers come into frequent contact with the operators. Owing to LPG, LIC, BSNL, Post offices had to face severe competition from the private players and had to improve their efficiency.

Therefore, the employees of the concern must be courteous to the consumers. In order to maintain harmonious relationship with the public and to keep the consumers fully informed of time schedules, special services, etc., a public relations department becomes necessary.

There are no middlemen and a public utility concern provides direct services. In many cases, the service has to be provided at the premises of the consumer, e.g., water, electricity, gas, etc. There are no problems of credit, collection and bad debts as sales are made generally on cash basis.

## 4. Ownership and management:

Public utility concerns are generally owned and operated by the Government. Private enterprise is not considered suitable for such concerns because of the need for public regulation and control. Public ownership and control of public utilities may be secured in the following forms:

## (a) Departmental undertaking:

Some public utility concerns may be organized as departments of the Central or State Government. Railways, Posts and telegraphs, KSRTC, Metro, BMTC are examples of such public utilities in India. Under this form of organisation, a public utility concern works under the control of a ministry.

The finances are provided by the Government through annual appropriations from the treasury and all revenues are also paid into the treasury. The main advantage of this form of organisation is that it ensures sufficient public control by the Government officials and the Parliament.

But the departmental form lacks the flexibility necessary for the supply of efficient and prompt services to the public.

## (b) Municipal bodies:

In India, majority of the public utility concerns are operated by municipalities or other local bodies. The local body consists of the elected representatives from the local population.

It constitutes sub committees to look after the day-to-day administration of the public utility concern. Permanent officials of the local body assist these sub-committees.

Theoretically, municipal form of organization appears to be fully democratic because the elected representatives of the public exercise direct control over the management of a public utility concern.

The local body can readily take up the local problems to protect the public interest. But the elected representatives may not be competent enough to manage the concern efficiently.

They may think in terms of narrow interests of particular constituency. Political rang- lings may interfere with the efficient supply of essential services. This has been revealed clearly by the frequent breakdown of power and water supply in Delhi.

## (c) Public corporation:

A public utility concern may also be organized as public corporation which is an autonomous body set up under a special Act or statute. The Act describes its powers, functions and jurisdiction.

It is financially independent and is managed by separate Board of Directors. Public corporation is a very useful form of organization for public utility concerns because it combines the merits of public accountability and flexibility. It is a separate legal entity directly accountable to the Parliament or State Legislature.

12.6	NOTES	
	<del></del>	

#### 12.7 SUMMARY

Education is considered to be as an important ingredient of human resource development and providing such education is a government's responsibility. Professional services on other hand are treated as expert's job and an ordinary person cannot do it. Health care services are vital part of our day to day life. All these services have to be managed efficiently and effectively. Unlike marketing of products or other services, health care or professional services cannot be marketed so easily. These services are usually intangible and heterogeneous in nature. It is highly difficult to standardize these services. However many educational institutes and hospitals are awarded ISO 9000 certificates as a symbol of quality and standard.

#### 12.8 KEY WORDS

Hospitals, education institutes, professional services, public utility services

## 12.9 SELFASSESSMENT QUESTIONS

- 1. Explain the characteristics of education service and marketing mix for education services
- 2. Discuss the hospitality services management
- 3. Give an account on professional services
- 4. Explain problems in public utility management

#### 12.10 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. Service Management and Operations. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.



Mukthagangothri, Mysore-570006

## DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

## M.B.A III SEMESTER

# **COURSE - 14**

# **SERVICES MANAGEMENT**

# **BLOCK**

4

# **SERVICES OPERATIONS MANAGEMENT**

Unit 13	
Building Service System	01-22
Unit 14	
Operating Service System	23-39
Unit 15	
Managing Service Operations	40-61
Unit 16	
Role of Technology in Service	62-78

Course Design and Editorial Committee				
Prof. D. Shivalingaiah	Prof. T.D.Devegowda			
Vice-Chancellor & Chairperson	Dean (Academic)(I/C)& Convenor			
Karanataka State Open University	Karnataka State Open University Muktagangotri, Mysore – 570 006			
Muktagangotri, Mysore – 570 006				
Editors	Co- Editor and Subject Co-Ordinator			
Dr. C. Mahadevamurthy	Dr H. Rajeshwari			
Associate Professor and Chairman	<b>Assistant Professor</b>			
Dos & Research in Management,	Dos & Research in Management,			
Karnataka State Open University,	Karnataka State Open University,			
Mukthagangothri, Mysore – 570 006	Mukthagangothri, Mysore – 570 00			
Course Writers				
Dr M.S. Yathish Chandra	BLOCK - 4 (Units 13 to 16)			
Associate Professor				
Department of Management				
UBDT-VTU PG Centre				
Davanagere				
Publisher				
Registrar				

# Developed by Academic Section, KSOU, Mysore- 6, 2016

Karnataka State Open University, Mukthagangothri, Mysore - 6

All rights reserved. No part of this work may be reproduced in any form, by mimeograph or any other means, without permission in writing from the Karnataka State Open University.

Further information may obtained from the University's office at Muktagangotri, Mysore - 6

Printed and Published on behalf of Karnataka State Open University, Muktagangotri, Mysore - 6

# **BLOCK - 4 : SERVICES OPERATIONS MANAGEMENT**

In the previous module we have discussed the various aspects of services. In general, service industry exhibit low entry barriers, but sustaining in the service business is often challenging. This forces the service companies to innovate continuously. Innovation is required in building a proper service system. To design a services system one should consider service facility layout and the number of service providers or the service point required. Service blueprint is one of the tools to design service delivery system. Various approaches towards service delivery design are discussed which complement the service delivery process.

After building a service system managing the system is also equally important. Care has to be given to provide quality service and also assure service quality. Today internet has become the plotform for a variety of service, a vista for innovating various types of services, This module discusses the role of innovation in services and new service development cycle. Technology and mainly Information Technology has revolutionized the businesses of all sectors. Role of technology is presented in the context of service industry.

- Unit 13 Building service system
- Unit 14 Operating Service System
- Unit 15 Managing Service Operations
- Unit 16- Role of Technology in service

# **UNIT-13: BUILDING SERVICE SYSTEM**

## **Structure:**

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Service Design
- 13.3 Service Design system
- 13.4 New Service Development
- 13.5 Servicescape
- 13.6 Service facility Layout
- 13.7 Facility Location Decision Factors
- 13.8 Notes
- 13.9 Summary
- 13.10 Key Words
- 13.11 Self Assessment Questions
- 13.12 References

### 13.0 OBJECTIVES

After studying this unit, you should be able to:

- Discuss the new service development process and service;
- Design service system using service blueprint to align service with service delivery and
- Design service location facility.

#### 13.1 INTRODUCTION

The word 'Operations' is defined as the transformation process in which inputs in the form of people, raw material, technology and money are transformed using some process to an output as goods, service or product. When we talk about operations in context of services, we see many service organizations are labour intensive that is the people or humans contribute the most as input factor in the transformation process.

The output also involves human beings. Involvement of customer in the production and consumption of service makes the service operations very dynamic. The absence of set standard practices and performance measures due to human dynamics make the service operations a challenging task. Contrary to services it is easier to evaluate the performance of goods in terms of visible features, strength, and quality.

The other dimension which brings more challenges in the services is the involvement of people from different functional areas of an organization. The transformation process in services depends on the efforts of all functions like Human resources (training), marketing (managing demand), operations (optimal utilization of resources), finance (budget constraints), Information Technology (automate the manual processes).

#### 13.2 SERVICE DESIGN

The following factors must be considered while designing a service.

#### 1. Service Concept or Objectives of service

The nature of the core service should drive the parameters of service design aligned with service concept. The emergency ward of any hospital should be free from traffic and easy to approach. A petrol pump can be painted with bright color so that the customers driving on highway can prepare to take turn well in advance.

## 2. Space Requirement based on location of service site

The location of site whether in rural and urban area impacts on design factor. The cost of land is usually more in urban area than in rural area. The cost constraints drive the service

organization to utilize the small space efficiently. The other constraints can be of strict zoning laws and ordinances which are important to consider while designing facility. The scope of expansion is again governed by some ordinances. Many KFC outlets have expanded vertically and have provided seating arrangements on the first floor.

## 3. Security

For any service organization it is important to protect the assets. Proper security arrangement should be incorporated while designing facility to control and reduce the losses of products and human lives. Installation of surveillance cameras and related control systems are very common in banks and supermarkets. Biometric devices to detect the identity of passenger are another type of tools mostly used in immigration sections at airports.

## 4. Flexibility

Service facility design must be adaptable to changing customer and environment conditions. It addresses the capability of either expanding the service or introducing new types of services. Ability to introduce new equipment or automated systems with new technology advances must be captured while designing service facility.

Example: Facility Design Factors important for any food service organization

- Size of the facility in terms of average numbers of guests per day and time they spent in the service system
- Size of parking lot
- Size of waiting room
- Size of kitchen
- Ration of kitchen space to dining area space
- Type of seating
- The colors and lighting in the dining room
- Space between the dining tables
- Interior design or décor of dining area
- Type of music and sound of music should be selected such as the guest does not feel uncomfortable or disturbed.
- Location of rest rooms

## 13.3 SERVICE DESIGN SYSTEM

- Service design process is comprised of service system elements which form a blueprint to communicate the service concept to customers and employees
- Service system elements can be categorized as structural and managerial elements which should be in place to offer services that achieve strategic service vision as shown in Figure 13.1

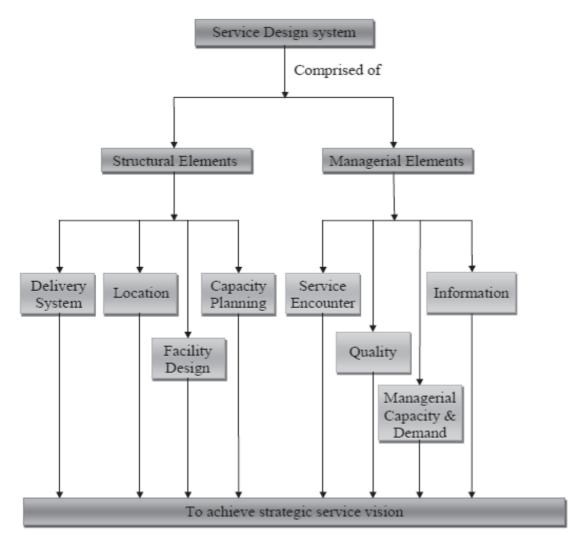


Fig 13.1 SERVICE SYSTEM DESIGN ELEMENTS

#### **Structural Elements**

The decisions pertaining to structural elements are of strategic in nature, which have to be planned considering long-time horizon while designing service delivery system. These structural elements are presented below.

## **Delivery System**

- Front & back office operations
- Automation like self-service technologies
- Customer participation

## **Facility Design**

- Size of facility
- Aesthetics and ambience
- Layout and expansion consideration
- Facility Location
- Customer demographics
- Single versus multiple sites
- Site characteristics
- Service concepts and objectives of service delivery
- Capacity Planning
- waiting lines
- Accommodating average and / or peak demand
- Service –line balancing

## **Managerial Elements**

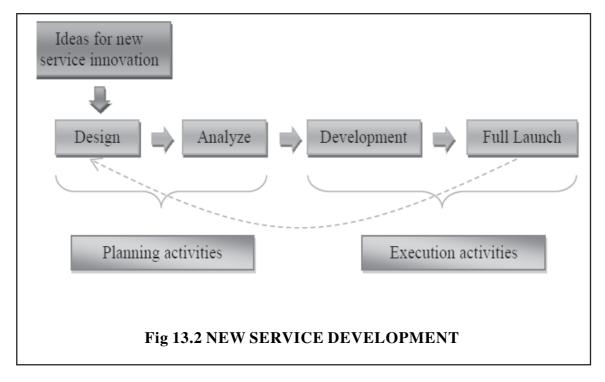
Once structural elements are in place, service organization take into account the activities require personal interaction or virtual interaction with the customer as a service encounter. It is important to consider managerial elements while designing service which can improve customer interaction and service quality at the same time provide hassle free service with less waiting time. Such elements are listed below.

- Service Encounter
- · Characteristics of service provider, employees and customer

- Quality
- Reducing gaps between customer expectation and perceptions
- Managing capacity and demand
- Information

#### 13.4 NEW SERVICE DEVELOPMENT

- For their survival, service companies must develop new services continuously. New service is defined as an offering not previously available to the customers using Innovation process.
- New service development process is required to accommodate dynamic requirements of customers/ market, to bring service innovations that achieve Competitive advantage leveraging the speed of technological developments.
- New service development process faces challenges in terms that service cannot have extensive R & D departments like manufacturing or processing industry It is very difficult to imitate or make prototype of new service and test it in some laboratory.
- New Service Development (NSD) can be demonstrated as a cycle shown in Figure 3.2, which takes service innovation as inputs to the NSD cycle.



## **New Service Development: Innovation**

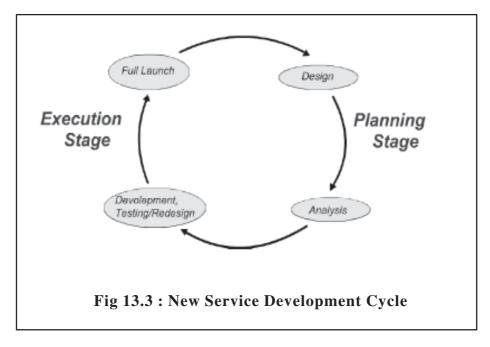
Innovation can be defined as successful exploitation of new ideas. Innovation is must to face the challenges or competition in service due to

- Low entry barriers in service
- Few patent protection
- Lower capital investments
- Shorter service product cycles

Innovation can also be perceived as novel, useful and creative ideas that improve effectiveness & delivered to the customers to create commercial value.

## **New Service Development Cycle**

- After considering innovations as input to NSD cycle, the cycle as shown in Figure 13.3 enters into planning stage, which is comprised of
  - Design: Formulation of new services, objective / strategy, Idea generation and screening and Concept development and testing
  - · Analysis: Business analysis and Project authorization
- After planning stage, cycle enters into execution stage which is comprised of
  - Development: Service design and testing, Process and system design and testing, Marketing program design and testing, Personnel training, Service testing and pilot run and Test marketing
  - · Full launch: Full-scale launch and Post-launch review



#### 13.5 SERVICESCAPE

In services where customer physically participates in service delivery system, facility design issues need to be addressed with more care. Facility design comprised of physical environment, space requirements, aesthetic factors and flexibility aligned with the service concept. It is important to understand the physical environment under which any service is performed, also called **servicescape**, before discussing other design related issues.

### **Examples**

- 1. In airline service, we can have servicescape elements like Airline gate area, Airplane exterior and airplane interior like seats, scent, air, quality. We can also have other tangible elements related to service design like tickets, food and uniforms of crew members.
- 2. The servicescape of hospital comprised of building, parking, care room, medical equipment. Other tangible design related elements are uniforms of doctors and nurses, patient information records, billing statements etc.

## Servicescape

The term servicescape was coined by Bitner (1992) to describe the physical surroundings of the service system. As soon as the customer enters the service system, he or she perceives the physical surroundings that lead to cognitive, emotional and physiological responses in them which effects customer's behavior. Servicescape also influence the employees' behavior. The physical environment or surroundings have the following dimensions.

- Ambient conditions
- Space/ functions
- Signs, symbols and artefacts

#### **Ambient Conditions**

Ambient conditions refer to the atmospheric or environmental conditions of a service place such as temperature, air quality or scent, noise, lighting and music which affects all five senses of human being. We can compare the ambience of railway station with that of airport. We can feel a different ambience in pizza huts than other restaurants. In some studies on supermarkets have illustrated that the music tempo can effect the pace of shopping, length of stay and money spent by the customer.

## **Space or functions**

This aspect refers to the organization and arrangement of facility layout equipments and furnishings. Many times we see that a customer goes to the same grocery retail mall frequently. The reason could be the comfort of space, easiness in locating the necessary buying items and acquaintance with layout and billing location. High ceilings in movie- theaters convey feeling of spaciousness.

#### Signs, Symbols and artefacts

We see different signals in any service systems that are meant to communicate acceptance norms or rules of behavior. Sign like "no smoking", "Keep silence" are common to represent rules of behavior. Artwork and furnishings creates aesthetic impression and enhances professional images with visitor as well as presents pleasant workplace for employees. Management of servicescape depends on the type of service as shown in the figure 13.4

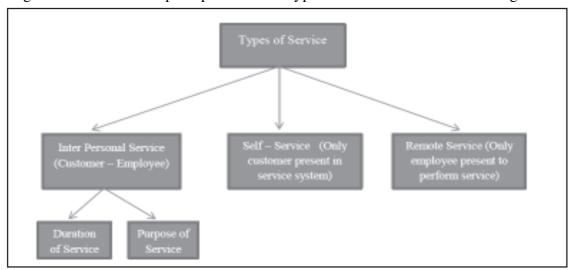


FIGURE 13.4: DIFFERENT TYPES OF SERVICES WHICH IMPACT SERVICESCAPE

- In interpersonal services both customers and employees are present for interaction such as hospitals and banks. The needs and requirements of customers and employees should be facilitated by servicescape to enhance the social interaction.
- In the self-service type services employees are absent and customer has to perform all operations on his or her own like operating ATMs and vending machines. Servicescapes should guide the customers properly using signage (Arrow or light against selected button), initiative design (hot tea cup for hot and ice for cold drinks) and display of steps and other information (like the denomination a vending machine can accept)

• In remote services, the customers are served from a distance and only employees perform the actions in the servicescape such as telephone and utilities related services.

#### 13.6 SERVICE FACILITY LAYOUT

Layout is the way or arrangement in which service facility is organized. The arrangement could be of service facility area, equipment, workstations or any physical entity.

It is important to design a proper facility layout to have smooth flow of work and efficient flow of information, material and people. Layouts are also designed to maximize the space utilization to eliminate waste or redundant movement. It increases the capacity of service facility and hence reduces the customer waiting and service time. Proper facility layouts also facilitate entry, exit and placement of products which is mostly seen in big super markets.

Facility layouts are designed so as to encourage proper and convenient maintenance activities and to incorporate safety and security measures.

## Different types of facility layouts

- 1. Product layout
- 2. Process layout
- 3. Fixed-position layout
- 4. Office layout
- **5.** Retail layout

#### **Product Layout**

In product layout the workstations are located according to the processing sequence for the service. The whole service system is divided into an inflexible sequence of steps or operations and all customers move from one workstation to adjacent workstation covering all steps in a sequence. This is also known as assembly —line layout where product is assembled in a fixed sequence of steps like cars. Product layouts are arranged for service organization which provides limited number of services or standard services to a large number of customers. The objectives of having product layout in place are

- To maintain a smooth flow of customers or work through workstations or servers
- To avoid bottleneck, where bottleneck is the job or activity that requires most time per customer

• To equalize the time needed by each server by balancing the service line. Service line can be balanced by moving tasks from one server to another.

We can summarize that the product layout planning problem is to find the ideal balance so a continuous flow of customers is maintained along the service line with a minimum of idle time at each server.

#### **Example**

We see in a cafeteria with standard menu, the customers enter into a service line to be served through set of activities as shown in figure 13.5

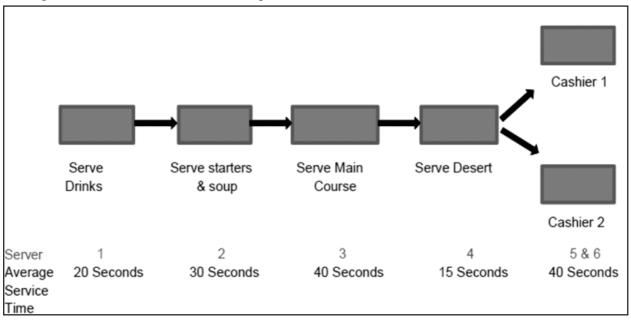


FIGURE 13.5 PRODUCT LAYOUT OF A CAFETERIA

In figure 13.5 we can see that there are 6 servers and the bottleneck activity, the activity taking maximum time, is to serve main course which takes 40 seconds to serve a customer.

## **Process Layout**

In process layout, similar activities are grouped together according to the process or function they perform. Such layout is appropriate to implement when there exist many, low-volume and different customer requests. In process layout, customers need and specifications are different hence provide some degree of customization.

Some examples of process layout are professional services such as health clinics or hospitals and consulting. The advantages of process layout are the simultaneous handling of wide variety of services and flexibility in assigning employees to the servers.

At the same time there are some difficulties in managing process layout. The customers with different needs may choose different sequence of activities. The service provider sees the flow of customers to be intermittent. At any point of time, any functional department may face fluctuating demand.

After arriving into next functional department from the previous functional department the customers may join new queue and hence waiting must be evolved. The service provider has to plan for waiting area in each functional department and also consider the travel time between the departments.

The objective of process layout is to arrange department or service centers in the most convenient locations, which can be achieved by placing departments with large interdepartmental flow of people or paperwork next to one another.

## **Example:**

When we go to a apparel, accessories and home furnishings retail shop we see the layout in a manner presented in figure 13.6

Jewelry &	Kid's	Home Furnishings	
Cosmetics	Wear		
Women's	Kid's	Shoes &Bags	
Formal	Play Area	Shoes & Bags	
Women's		Man's Apparal	
Casual	Entrance	Men's Apparel	

FIGURE 13.6 A PROCESS LAYOUT OF RETAIL SHOP

After entering any retail, ladies may like to explore dresses and jewelry so there will be maximum flow of ladies between three departments; women's casual, women's formal and jewelry and cosmetics. The customers who will visit retail shop with their kids would like to have kid's play area approachable from all other departments, hence it should be located at the center of retail area. The layout must incorporate the inputs like, the type of customers

(boys, girls, married couples, and couples with kids), intermittent flow between department and demand requirements.

## **Fixed position Layout**

In fixed position layout, the service is performed around a customer that remains stationary while the work is being done. For example a surgery is performed on a patient, where patient remains stationary in operation theatre. Different doctors or specialist perform different activities in a sequence on a stationary patients like an Anesthetist will give anesthesia, doctors will start operation, surgeon will perform surgery, radiologist will monitor other health measures, and then the team of doctors may perform stitches and complete the whole process.

## **Office Layout**

Office layout is an arrangement of departments, people or workers and their equipment so as to maximize the flow of information among people, effectively utilize the space and maximize employee or worker productivity. The decision factors for office layout are given below.

- 1. Smooth flow of work: The office layout can be a straight line, circle or U-shaped to ensure steady & unhindered flow of work. The floor space should be free from partitions and columns.
- 2. Space Utilization and Uniformity: Office layout should make fullest utilization of space. Proper aisles should be provided. The furniture and other equipment's should be of uniform size and appearance with greater flexibility.
- **3. Working environment:** Office layout must consider comfort, safety, and ventilation and light requirements.
- **4. Location of departments:** The employees performing similar functions can be grouped together. Interrelated departments with maximum flow of people or information should be placed together. Common facilities like canteen, printing facilities, client meeting room should be easily accessible.

#### **Retail Store Layout**

The retail store layout emphasize on maximizing the net profit per square of display space. More of the customers have exposure to the products greater the sales and hence revenues. The retail stores can have strategy of focusing only a segment of customers and accordingly plan the layout. For example, the grocery stores can place daily routine items like bread, milk and eggs at the entrance of stores so that the working couples can quickly buy the goods.

Any retail store outlet can consider two factors

• The overall arrangement or flow pattern for the store.

- Allocation of space within that arrangement to various products
- To increase the profitability the retail store layout can consider the following points

To encourage impulse buying the daily necessity products can be stored far away from the clear vision of the customers. In such manner the customer will view other products also which are not in the customer's buying on the way to the necessity products.

- Sufficient aisle space should be provided for free movement of customers
- Convey the mission of the store by carefully selecting the position of the lead off department.

### 13.7 FACILITY LOCATION DECISION FACTORS

Facility location decision is a strategic decision for any service organization as shown in figure 13.7

- Offering service at a new location can be a part of growth strategy. Mc Donald's has entered into India and planning to open new facilities from metro cities to tier 1 and tier 2 cities, city after city to grow in the country.
- Expanding business in an existing facility or to a new location to cater to increased demand can be a part of expansion strategy. Many hotels are expanding their facilities to include recreational activities, spa, gymnasium to cater to rising demand of customers. The other example is expansion of airports in metro cities of India.
- The competition in prices and increasing purchasing power of Indian citizens, the demand of air travel has been increased drastically in the past few years. The airports at Delhi, Mumbai and Bangalore in India have expanded their facilities to meet this increasing demand.

The facility location decisions are considered where service organization seek for new sites

Service to be offered at new location	$] \Longrightarrow$	Growth Strategy
To manage increased demand	$\Longrightarrow$	Expansion Strategy
Due to fall in demand at existin	g facility locate new facility	with sufficient demand

FIGURE 13.7 FACILITY LOCATION DECISION: PARE OF ORGANIZATION'S STRATEGY

13.8	NOTES	S		 			


 <del></del>	<del></del>	 

#### 13.9 SUMMARY

**Service delivery** is a set of principles, standards, policies and constraints used to guide the design, development, deployment, operation and retirement of services delivered by a service provider with a view to offering a consistent service experience to a specific user community in a specific business context. It is the context in which a service provider's capabilities are arranged into services.

The term **service delivery** has been used interchangeably with the term service delivery platform (SDP), which is a set of technology components that provide capabilities. An SDF governs and guides the use of SDP capabilities.

While delivering service one has to give importance to the customer satisfaction. Customer who wait in queue feel frustrated and try to avoid such services. Hence service provider has to take care of all such issues.

#### 13.10 KEY WORDS

Servicescape, service facility, service facility location, building service system

#### 13.11 SELF ASSESSMENT QUESTIONS

- 1. Discuss the meaning of servicescape and different factors involved in it.
- 2. Explain the factors affecting facility location
- 3. Describe the various types of service facility layouts

#### 13.12 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management : Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# **UNIT-14: OPERATING SERVICE SYSTEM**

## **Structure:**

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Operating Service Systems
- 14.3 Service Delivery System
- 14.4 Service Blueprint
- 14.5 Customer Satisfaction in service
- 14.6 Queuing Theories
- 14.7 Application of queuing theories in service
- 14.8 Notes
- 14.9 Summary
- 14.10 Key Words
- 14.11 Self Assessment Questions
- 14.12 References

#### 14.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify the major factors in operating a service system;
- Design a service Delivery System;
- Explain the meaning of service blue print;
- Measure customer satisfaction in service and
- Appreciate the application of queuing theory in service.

#### 14.1 INTRODUCTION

Service design and operations are tailored to customer needs. Balancing quality, cost and revenue objectives, increase in employee satisfaction, improved service quality and higher customer loyalty are the evernew challanges to the servia provider. In this unit lety us discuss service delivery system, blue printing and methodologies to satisty customers in service.

#### 14.2 OPERATING SERVICE SYSTEMS

Effectively managing service operations is crucial to controlling labor costs and improving customer satisfaction. By addressing six drivers of performance, executives can go a step further — turning their service operations into a key source of competitive advantage.

Many companies have successfully transformed their manufacturing, R&D, and other business functions, improving their performance while stripping out cost. Yet far fewer have optimized their service operations, even though they can have an outsized effect on customer acquisition and retention. When service levels and costs are properly balanced and optimized, they can deliver a substantial and sustainable competitive advantage that competitors will find hard to match.

By their nature, service operations are often labor intensive and complex to manage. Repetition and consistency, typical hallmarks of excellence in service operations, can work against a company that is trying to achieve step-change improvements in processes and behaviors. Additionally, executives across many industries are finding it increasingly challenging to keep service costs in check (especially labor costs, the single largest cost component of any service operation) while maintaining service levels. Recent technological advances — for example, self-service kiosks commonly found in airports, banks, and hotels — have helped improve overall productivity, but technology is only one part of the solution.

Designing a tailored set of service models based on customer segments is a prerequisite for providing the desired services without overspending. Whether the business is a retailer trying to optimize sales floor coverage, a hospital seeking to improve care delivery by better allocating nurses and beds, a hotel working to speed up check-in times, or a manufacturer delivering technical support in global markets, the leaders of the organization must rigorously and holistically manage the factors that affect service delivery and costs.

Service operations leaders must be in a position to identify and capture opportunities for improvement. To help, Booz & Company has developed a framework that encompasses the main factors determining the quality and cost of service.

To efficiently operate a service system one has to consider the following points.

- 1. Product and process design. The foundation for high-quality, cost-effective service operations is established far upstream of the point of service delivery during product design or, in the case of services companies, process design. Design affects quality and total service costs in significant ways. In particular, it can reduce service costs early in product life cycles by reducing defects, and it can reduce total service costs by shrinking the time it takes for a product to move from infancy to a stable, mature stage.
- **2. Service-level labor requirements.** Typically, labor is the largest cost in service operations and a key driver of customer satisfaction. Matching service requirements to customer needs, desires, and expectations is job number one. Some customers may want a lot of hand-holding, whereas others may be content with self-service options, for example, bank ATMs, grocery self-checkouts, and automated tech support online or via phone. Matching customer expectations with the service delivery method increases revenue and simultaneously lowers the cost-to-serve.
- **3. Service network structure.** Over time, as business and economic growth rates vary, mergers and acquisitions occur, and companies change their product mix and market focus, service costs can get out of whack. Management layers become excessive, processes become less standardized, workloads no longer align with staffing levels, and unnecessary facility expenses are incurred. Sometimes it is necessary to rethink how a service delivery network is structured. One service outsourcer was maintaining two separate organizations to provide hardware installation and repair in the same geographic areas. This model had enabled fast response in the past, but as the volume of service requests declined, partially owing to design and quality improvements, it made more sense to consolidate the two organizations.

- **4. Service process management.** Service processes are rarely static; they change in response to the needs of the business and its customers. This being the case, they need continual monitoring and adjusting to keep costs in check and ensure their ongoing effectiveness. Continuous improvement is a widely accepted idea, but in many companies, the culture does not easily support it. Further, service processes need gatekeepers who have decision rights for process changes and are accountable for their performance.
- **5. Workforce management.** The productivity of employees is a major consideration in all service operations. To optimize employee productivity, decision makers need to first calculate the total labor hours they need in each location, either in a bottom-up manner by identifying labor drivers and creating a model for determining task times and frequencies or in a top-down manner, one based on comparisons of operational performance to labor hours. Either method works, but the bottom-up approach offers an additional benefit in that it allows labor hours to be more easily adjusted as input drivers change. For example, one company created a detailed model, based on unique store demand patterns, to calculate the necessary staffing required to manage its truck tire service centers, generating a 12 percent savings in labor costs.
- **6. Measurement and compensation.** Unfortunately, few service operations and companies have sophisticated performance measurement and compensation structures. Most fall into one of three groups: those that track metrics in a consistent way at all levels, but have not aligned their compensation systems to the metrics; those that track metrics, but use inconsistent definitions across levels; and those that don't track metrics at all. Nonexistent, inappropriate, or inconsistent measurements result in missed improvement opportunities, the inability to understand whether process changes are working, and ineffective decision making..

#### 14.3 SERVICE DELIVERY SYSTEM

Service delivery system is a very important component while designing & delivery of new service as shown in Figure 14.1 The elements of service delivery system are

- 1. People: Organize people into cross-functional teams
- 2. Technology: Use appropriate tools and resources for planning and execution
- 3. System: Develop organizational culture that facilitate the entire service delivery process so that products can be developed quickly and effectively

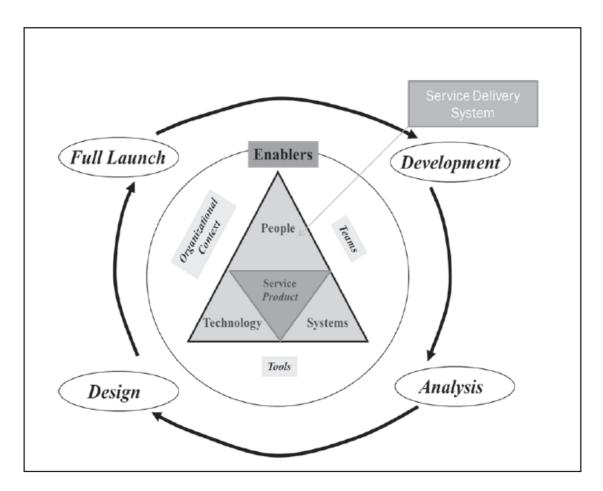


FIGURE 14.1: NEW SERVICE DEVELOPMENT CYCLE WITH SERVICE DELIVERY SYSTEM

## 14.4 SERVICE BLUEPRINT

Service blueprinting is a technique to design service delivery system as shown in figure 14.2.

- A customer focused approach for service innovation and service improvement
- Helps in visualizing the service processes and hence provide a bird's-eye view of the service system
- Identifying points of customer contact with service system
- Physical evidence associated with services from customer's perspective

## Physical Evidence

Customer will see and experience

Customer initiated steps, choices and interactions during the process of purchasing consuming and evaluating service

Line of Interaction

On stage contact person

Actions in the full view of customer

Line of Visibility

Back stage contact person

Actions not seen by customer

Line of Internal Interaction

Support process

Capacity requirement of the back office system

#### FIGURE 14.2 BLUEPRINT - TESTING OF THE SERVICE CONCEPT

- Connects the support processes throughout the organization as shown in Figure 14.3.
- In place of costly implementation of pilot studies, blueprints allow the creation, study and testing of services conceptually on a paper. See one example of hotel blueprint in Figure 14.4

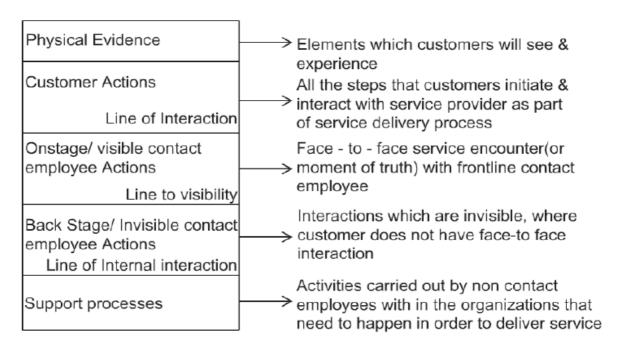


FIGURE 14.3 COMPUTERNTS OF SERVICE BLUEPRINT

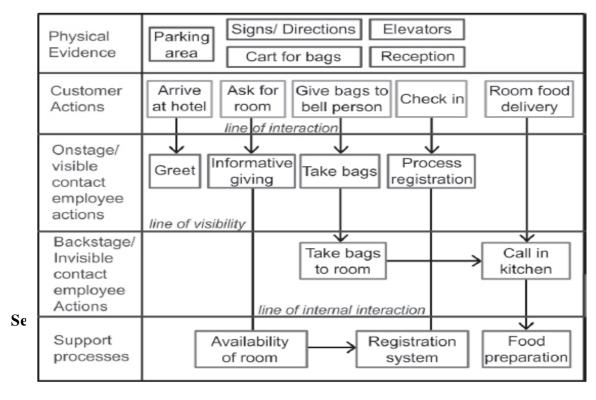


FIG 14.4: SERVICE BLUEPRINT OF A HOTEL

29

- In the service blueprint we can visually see the activities which need direct customer contact and which activities are back-office activities. This information can be utilized to provide appropriate training to employees and to develop good communication skills.
- Service blueprint can also enhance the quality and efficiency. It gives a good scope to
  determine potential areas where service failure may occur, hence failure mode analysis
  can be performed.
- Service Blueprint facilitates problem solving and creative thinking and hence a good tool to innovate in services.
- Considering quality issues right at the design stage will help in avoiding quality losses or service failure later.
- It provides a service process structure which can help in devising different approaches for service system design appropriate for different types of service organizations.
- Blueprint provides a common platform for all stakeholders to participate in the process where everybody gain insights into how their roles fit into the integrated whole, which facilitate innovation.

## 14.5 CUSTOMER SATISFACTION IN SERVICE

Customer satisfaction is a marketing term that measures how products or services supplied by a company meet or surpass a customer's expectation.

Customer satisfaction is important because it provides marketers and business owners with a metric that they can use to manage and improve their businesses.

- It's a leading indicator of consumer repurchase intentions and loyalty
- It's a point of differentiation
- It reduces customer churn
- It increases customer lifetime value
- It reduces negative word of mouth
- It's cheaper to retain customers than acquire new ones

## Gaining customer satisfaction

In a business world where customer acquisition costs are sky-rocketing, small and medium businesses must focus on building a customer experience to increase customer satisfaction.

## 1. Well Treating of customers

Customers have to be trated well as they inject the life blood for the company i.e money.

- Thank all customers for their business
- Go out of way to help customers
- Try to impress customers as if you want a pay raise
- Think about your paycheck every time you talk to a customer

Keep your promises and integrity

Did you know that 91% of unhappy customers will never purchase services from the comapny again? Measuring customer satisfaction can help to reduce the number of unhappy customers.

#### 2. Build customer loyalty to increase customer satisfaction

Customer satisfaction is worthless. Customer loyalty is priceless. The businesses should be focuses their efforts on creating loyal customers, that sticky and not easily influenced by competitors.

- Remember special occasions like birthdays
- Strive to empower and educate customers
- Invest in a self-service support channel
- Top level managers must lead from the front with customer service
- Talk to your customers, tap into what they want and deliver

## 3. Avoid making these customer retention mistakes

No business is immune to unhappy customers. In fact, even companies with the best customer service in the world will still lose up to 9% of their customers to competitors.

Here are three common customer retention mistakes that are killing your customer satisfaction:

- You are ignoring customer feedback
- You are taking customer feedback too personally
- You are using long, boring customer feedback surveys

## 4. Set customer expectations early

Setting expectations too high is a common mistake a lot of businesses (and salespeople)make when bringing on new business.

If you're like most businesses, you've probably had the odd wild over promising salesperson.

Gordon Tan, Director of Client Heartbeat, recommends under promising and over delivering.

There's no better feeling than as a customer to have your expectations exceeded.

## 5. Learn how to survey your customers the right way

A customer feedback survey is the best way to find out how satisfied your customers are, find ways to improve your product or service, and identify customer advocates who really love your product.

#### 14.6 QUEUING THEORIES

Queuing techniques are systems put in place to serve customers in an orderly manner. Queuing techniques prevent chaos in customer service by ensuring the company can serve one at a time, on an equitable basis. Queuing is more of a constant issue in product-based businesses than in the service industry, but service businesses still have to put systems in place to control the flow of customers. The service industry can turn to a number of distinct queuing techniques to improve efficiency and productivity in operations.

#### **Waiting Lobby**

The waiting lobby is a basic queuing system useful in retail service organizations. In a waiting lobby queue, customers sign in with a greeter and sit down to wait for their turn. Hair salons often use this queuing method, as do quick oil-change services. Busy restaurants take the waiting lobby system to the next level by providing waiting customers with electronic paging devices, allowing them to leave the confines of the lobby without missing their turn in line. Few resturants also take orders from customers and keep dishes ready. Once they occupy chairs, if customers are not willing to wait. A disadvantage of using waiting lobbies is that their physical space limitations cannot scale alongside growing demand without renovating buildings or purchasing new facilities. Small service companies who find their lobbies always packed to capacity may do well to consider changing to a reservation queuing system.

#### Reservations

Reservations are a queuing system unique to the service industry. Some service businesses only serve customers by reservation, allotting specific time slots for each customer and excluding all other customers during reserved times. Doctors, Upscale dining establishments and spas often use a reservation queuing system, as do musical instructors and other tutoring services. Reservation queuing can effectively limit supply for a company's services, which can contribute to an upscale brand image. Taking reservations can also help managers to estimate income for the near future, providing more insight for budgeting, scheduling and spending decisions.

#### **Online Queuing**

Online service companies ranging from online technical support specialists to legal services require online queuing systems to control the flow of customer requests. Online service providers utilize queuing software to place customers in a virtual line, which can take the form of an online chat, and email response, a response in a support forum, a text message or others Queuing software can provide useful information to customer service representatives by showing how many people are in the queue, how long each person has been in the queue and even a quick description of each customer's issue. Small businesses can turn to third-party software developers to purchase basic queuing software or develop custom packages for their unique service models.

#### **Telephone Queuing**

A number of service companies use the telephone as a major component of their service models. Pizza delivery companies and customer service departments in product-based businesses, for example, use the phone as a main means of contact with customers. Telephone systems can be equipped with queuing software similar to that used to serve customers online. Companies can even integrate phone systems with computers to provide the same range of useful information available in online queuing systems.

## 14.7 APPLICATION OF QUEUING THEORIES IN SERVICE

Queuing theory is the formal study of waiting in line and is an entire discipline in operations management. Queuing theory has been used in the past to assess such things as staff schedules, working environment, productivity, customer waiting time, and customer waiting environment.

Waiting in lines or "queues" seems to be an American pastime. Think about the many times you had to wait in line in the last month or year and the time and frustration that was

associated with those waits. Whether we are in line at the grocery store checkout, the barbershop, the stoplight, or in the pharmacy, "waiting our turn" is part of our everyday life. Queuing theory is the formal study of waiting in line and is an entire discipline within the field of operations management.

Queuing theory has many applications and has been used extensively by the service industries. Queuing theory has been used in the past to assess such things as staff schedules, working environment, productivity, customer waiting time, and customer waiting environment. In pharmacy, queuing theory can be applied to assess a multitude of factors such as prescription fill-time, patient waiting time, patient counseling time, and pharmacist and technician staffing levels.

## **Queuing Systems and Terminology**

On the surface it may seem like queuing is just simply waiting in a line. To most customers, the waiting experience is all that matters. However, waiting in line is just a part of the overall queuing system. A queuing system (also known as a processing system) can be characterized by four main elements: the arrival, the queue discipline, the service mechanism, and the cost structure. The arrival is the way in which a customer arrives and enters the system for service.

Whenever customers arrive at a rate that exceeds the processing system rate, a line or queue will form. Arrivals may come in singly or in batches; they may come in consistently spaced or in a completely random manner. A potential customer can also leave if, on arrival, he or she finds the line too long—this is called balking.

The queue discipline is the rule for determining the formation of the line or queue and the order in which jobs are processed. There may only be one line and jobs are processed First-In, FirstOut or FIFO. Others may have more than one line to give certain customers priority such as express lanes in grocery stores. The service mechanism describes how the customer is served. It includes the number of servers and the duration of the service time—both of which may vary greatly and in a random fashion.

The service time may be similar for each job or it could vary greatly. The cost structure specifies the payment made by the customer and the various operating costs of the system. Other elements that impact the queue structure and performance include the number of service stations and the number and speed of servers.

### The Importance of Queuing Management

Speed of service has been shown to provide businesses a competitive advantage in the marketplace. Speed of delivery is being emphasized increasingly and can be partly attributed to increased competition and the value a customer places on his or her time. We live in a society who has come to expect film development and eyeglasses to be ready in an hour or less.

### **Queuing Applications in Service Industries**

Queuing management has been applied very successfully in many service-oriented industries. L. L. Bean, a large telemarketer and mail-order catalog house for high-quality sporting goods and apparel, used queuing theory to optimize staffing levels — resulting in an estimated \$500,000 per year savings.

The Department of Motor Vehicles in Virginia and Arizona used queuing technology to virtually eliminate long lines and greatly improve customer satisfaction. In addition, they were able to significantly improve employee morale and reduce operating costs.8–10 Queuing models have also been used to plan staffing levels in an outpatient hospital laboratory department and a centralized appointment department in Lourdes Hospital in Binghamton, New York.

Queuing models were used to identify an optimal configuration of capacity and staffing levels for both departments. The lengthy delays in answering telephone calls in the centralized appointments department were completely eliminated by rearranging work shifts of current employees. The Virginia Mason Medical Center in Seattle, Washington used queuing theory and other classic quality management principles to drastically reduce patient waiting time for appointments (42 days to 13), emergency room triage time (45 minutes to 15), and increased staff morale.

Queuing theory has been used extensively in the banking industry to increase business by careful placement of merchandising materials while at the same time alleviating both the actual and perceived amount of time a customer spends waiting in line.14 Finally, queuing theory has been applied to computer simulation models to help with business decisions and problems.

# **Customer Satisfaction and Waiting Time**

Customer satisfaction has been defined as the difference between the customer's perceptions of the experience and his or her expectations, which is many times based on past experience. Although it is possible to manage and decrease actual waiting time and to some

extent to manage customer expectations about customer satisfaction, managing the customer's perception of the queuing experience can be the vital element in satisfaction with the service interaction.

The measurement of customer satisfaction as it relates to waiting time is highly qualitative and subjective, and the relationship is generally inverse in nature (ie, in general, as waiting time decreases, satisfaction increases). This relationship was further expanded by Maister who, in 1985, postulated that satisfaction is dependent on customer perception and customer expectation.

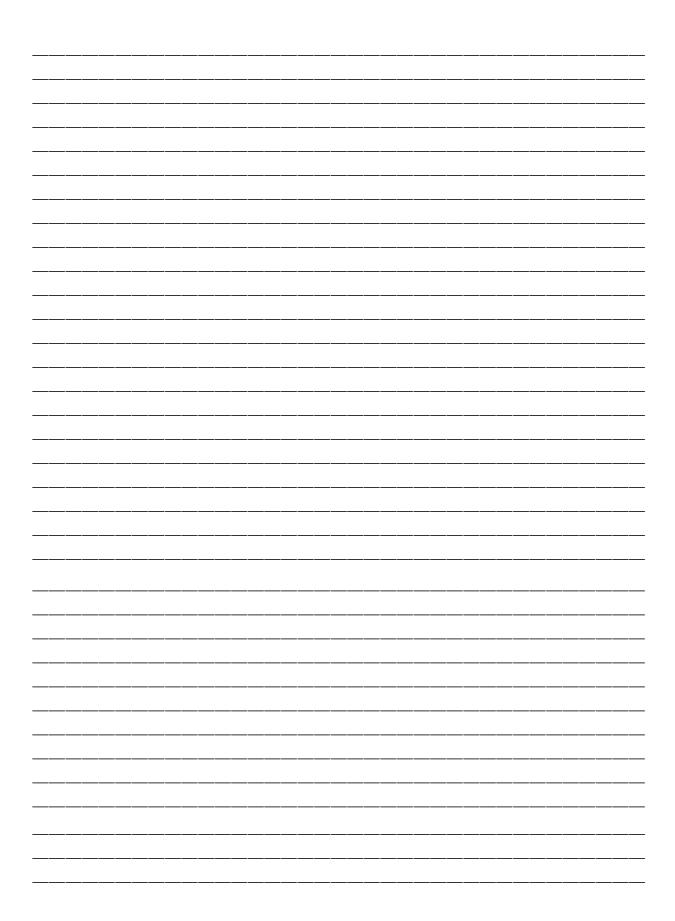
Numerous scientific studies, journal articles, and text books have been published describing the relationship between customer satisfaction, waiting time, and consumer behavior.

For example, one study examined customer attitudes toward waiting times in the hotel and restaurant industry and found that over 70% of all respondents were clearly concerned about waiting times. In fact, those most concerned about waiting times were generally more willing to pay more to avoid waiting in line and believed that quality is worth waiting for. The results of this survey indicate that queues do affect the satisfaction level of customers and their willingness to spend. In addition, this study also suggests that there is a point where a lengthy wait begins to affect the customer's perception of quality.

Another study examined patient satisfaction with outpatient pharmaceutical services at a large university hospital. This study reported that of the patients who received prescriptions from university physicians and did not fill them at the university pharmacy, 21% went elsewhere to have their prescription filled because of the long waiting time, even though prescription prices were less expensive through the university system. Similarly, another study conducted in a large Veterans Affairs hospital reported that pharmacy redesign improved patient satisfaction because of a 50% decrease in patient waiting time.

14.8	NOTES				

 , ,		 		,		
				,		
				,		
				,		
				,		
				,		 



#### 14.9 SUMMARY

In this unit, we have dissussed about operating service system. we have studied the various points to be considered while operating a servia system. Service providers must have a proper delivery system. To make delivery effective one must have a service blueprint. Unless customer is satisfied, no company can engage itself in service. Care has to be taken to ensure that the customers are not frustrated about waiting in a quene is get the service. Queuls have is be managed scientifically. We have discussed all these issues in this unit.

#### 14.10 KEY WORDS

Queuing system, Service Blue print, Service Delivery

# 14.11 SELFASSESSMENT QUESTIONS

- 4. Discuss the factors involved in operating a service system efficiently
- 5. Explain the meaning of service blue print
- 6. Describe the importance of customer satisfaction in service industry
- 7. Examine the application of queuing theory in services

### 14.12 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. Service Management and Operations. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# **UNIT - 15 MANAGING SERVICE OPERATIONS**

# **Structure:**

- 15.0 Objectives
- 15.1 Introduction
- 15.2 Service Encounter
- 15.3 Service Quality
- 15.4 Measuring Service Quality
- 15.5 Service Recovery
- 15.6 Service guarantee
- 15.7 Notes
- 15.8 Summary
- 15.9 Key Words
- 15.10 Self Assessment Questions
- 15.11 References

#### 15.0 OBJECTIVES

After studying this unit, you should be able to:

- Discuss the role of service organization, contact personnel and customer in service encounter;
- Introduce the concept and various dimensions of service quality;
- Evaluate service quality;
- Assess the severity of service failure in service organizations and
- Suggest ways of service recovery and service guarantee to retain customers after service failure.

#### 15.1 INTRODUCTION

Service organisations respond to the requirements of customers to satisfy some needs and leave certain experiences in the minds of the customer through a service delivery system. This unit addresses the strategic and operational aspects of managing service systems. In addition to discussing the design and operational control of service operations, specific issues pertaining to certain sectors of the service industry are also addressed.

#### 15.2 SERVICE ENCOUNTER

Service encounter is a situation or episode in which the customer in the form of human being or machine comes into contact with any aspect of the organization through employee or machine to experience the service and perceive the quality of service within servicescape or virtual contact as shown in Figure 15.1 It is also known as moment of truth.

**Servicescape:** The physical environment of the supporting service facility influences both a customer and service provider aligned with the service concept.

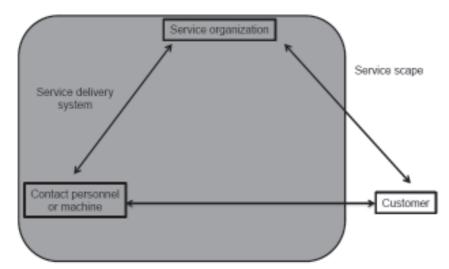
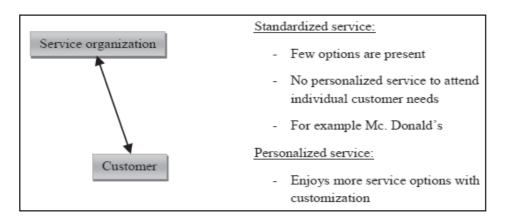


FIGURE 15.1 ELEMENTS OF SERVICE ENCOUNTER

### **Service Organization- Customer Interface**

- Given the service strategy of an organization, what amount of discretion the contact personnel can have?
- Whether operating procedures of service organization allows standardized service or personalized service?

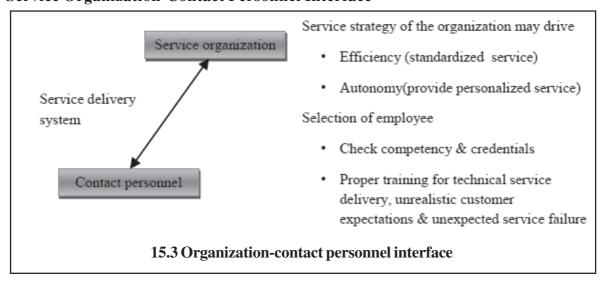
Fig 15.2 Organization customer interface



# Responsibilities of customer in getting the right service

- Right & complete information given by the customer impacts the service encounter.
- For new forms of service transactions mostly technology oriented self-service forms may demand proper training to the customer & complete set of guidelines. Right information IN leads to right information OUT.

### **Service Organization-Contact Personnel Interface**



#### **Customer in Service Encounter**

- ⇒ The customer perception about the service may
  - · Generate value for service organization
  - · Result in repeat purchase of service product
  - · Pass good word of mouth
- ⇒ Service encounter may deal with
  - · Customer's body or mind
  - · Customer's possessions
- ⇒ A customer may drive service encounter by his / her expectations and attitudes
  - · Economizing customer who wants to maximize the value obtained from service
  - · Personalizing customer looking for gratification
  - · Convenience customer who is willing to pay extra for personalized & hassle free service
  - Ethical customer when customer feels a moral obligation to patronize socially responsible firms

Customer's physical presence over longer period in service organization influences the judgment & perception about quality of service.

#### **Service Provider in Service Encounter**

- Service provider can be of various types.
- ⇒ Service provider: A human being
  - · Customer expects courtesy, respect, safety & comfort
- ⇒ Service provider: A machine
  - · Convenience & ease of usage of self-service technology
  - · Clear instructions education on how to use
- ⇒ Service provider represents the organization
- ⇒ Drives the service delivery system

- ⇒ Looks service encounter and processes from the customer's viewpoint
- ⇒ Should have personality attributes
  - · Flexibility, tolerance for ambiguity, empathy for customers
  - · Other attributes age, education, product related knowledge, sales training & intelligence
- ⇒ Good interpersonal skills to ease customers concerns about the process
- ⇒ Service provider expects from customers
  - · Courtesy from customers
  - · Appreciation from customer
  - · Right information from customer
- ⇒ Service provider expects from service organization
  - · Appreciation from fellow members & management
  - Training regarding innovation & flexibility to recover during unexpected service failure
  - · Clear instructions regarding the discretion

# **Service Delivery System**

The following points help in facilitating a satisfactory service encounter.

- ⇒ Clear rules and regulations and procedures
- ⇒ Culture of the organization
- ⇒ Proper equipment, processes & procedures

### **Service Profit Chain**

A service organization considers all the above points to improve the profitability and or revenue growth. Such improvement is seen when an organization has loyal customers which gives repeat business. The customers will appreciate service when employees perceive a strong service orientation and when employees are satisfied with workplace support like Information Technology and improvement given to make decisions related to customer service. Hence, the customer and the employee can form perceptions about organizational effectiveness which are related and represented as satisfaction mirror as shown in Figure 15.4.

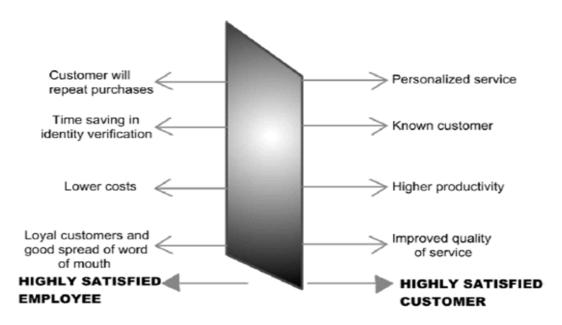


FIGURE 15.4: RELATION BETWEEN PERCEPTIONS AND EFFCECTIVESS-SATISFACTION MIRROR

The relationship between employee satisfaction, employee retention, service value, customer satisfaction, customer loyalty and profitability and growth of a service organization can be linked in the service profit chain as presented in Figure 15.5.

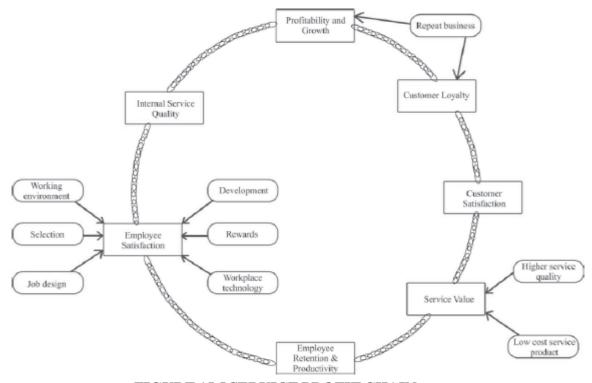


FIGURE 15.5 SERVICE PROFIT CHAIN

### 15.3 SERVICE QUALITY

Each service product is actually a bundle of goods and service. It is very difficult to separate them. Equally difficult is to define service quality. Service quality has many different perspectives from customers or client, employees and service organization as a whole. The cost of unsatisfied customer can result in huge loss to a service organization. It is important to consider quality parameters pertaining to customer requirements right at the time of designing service product.

The other reason of bad service quality can be variations in providing service. Statistical process control using control charts are useful tool to monitor the performance of service quality, Continual improvement in service quality is the right approach for the success of any service organization.

### Quality a Survival

Due to the nature of services, where service output is nothing but good experience, service quality has to be considered throughout the service encounter and to make customers and employees of service organizations satisfied as shown in Figure 15.6 and as discussed below.

- Higher customer loyalty
- Higher market share

Good quality service results in

- Higher returns to investors
- Loyal employees
- Lower costs
- Lesser vulnerability to price competition

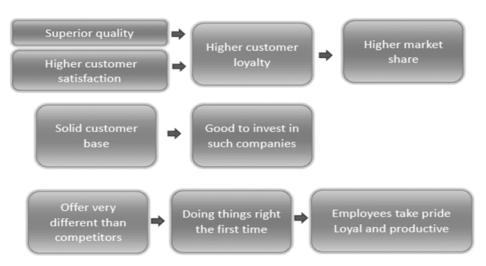
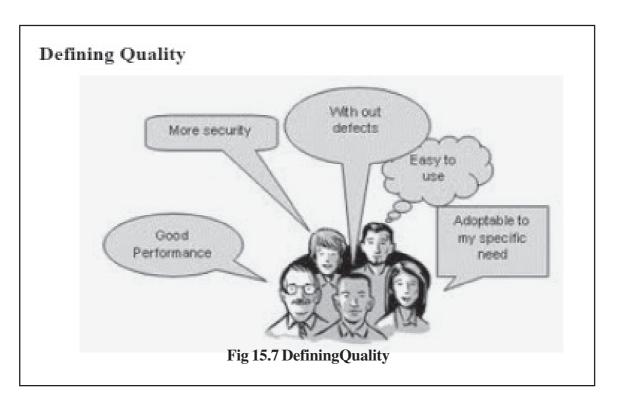


FIGURE 15.6: SERVICE QUALITIES FOR CUSTOMERAND EMPLOYEE SATISFACTION



# **Different Perspectives of Quality**

In general quality has been viewed differently as mentioned below

#### Ø Transcendent

· Innate excellence can be recognized only through experience

#### Ø Product based

· Based on measurable quantities, objective assessment of quality

# Ø User based (individual consumer's perspective)

· Fitness for use and Quality is in the eyes of beholder

# Ø Manufacturing based

- · Conformance to requirements
- · How well the output matches the design specifications?

# Ø Value based

· Balance between conformance or performance and at acceptable price

# **Definition of Service Quality**

Customer and service provider must understand each other's definition of quality.

- The totality of features and characteristics of product or services that bears on its ability to satisfy given needs.
- Customer Satisfaction: Bridging gap between customer's perceptions of service received and expectations of service desired.

# Quality of goods versus quality of service

- Measurement of service quality is difficult due to intangible nature of service
- Unsatisfactory service delivery cannot be undone whereas defective product can be replaced or repaired.
- Different customers desire different attributes in same service because customers' expectations from services are very subjective in nature.
- Quality specifications are provided by multiple simultaneous sources for example service provider would perceive quality as per standard operating procedures of service organizations whereas customers will specify their own specifications based on the value they perceive in the service and personal expectations. In goods quality standard operating procedures will guide quality achievement.

### **Dimensions of service quality**

Customers use five dimensions to judge service quality

- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangibles

# Reliability

Perform promised service

- dependably and accurately
- in same manner

- right the first time
- without error every time
- Ø **Example:** Banks keeping loan related records correctly, The waiting time at dentist is not more than the promised waiting time

### Responsiveness

Willingness to help customers

- Promptly
- to recover quickly after service failure
- Ø **Examples**: In case of lost debit card/credit card, the customer care people will block the card immediately, An airline provide meals at the airport in case of delayed flight

A service recovery is satisfying a previously dissatisfied customer and making them a loyal customer.

#### **Assurance**

Ability to convey trust and confidence

- Knowledge and courtesy of employees
- Competence
- Effective communication
- Ø **Examples**: being polite and showing respect for customer vastly exhibit by airline crew

# **Empathy**

Ability to be approachable

- Caring and Individualized attention
- Understand customer's needs
- Ease of contact
- Ø **Example**: Being a good listener to the customers concerns

### **Tangible**

Physical evidence of services

- Facilities and facilitating goods
- Appearance of service provider
- Tools or equipment used to provide the service
- Ø **Example**: The new international airports in New Delhi, Hyderabad and Bangalore have been constructed at par with International standards.

# 15.4 MEASURING SERVICE QUALITY

The measurement of service quality is done using SERVQUAL. You can note the following points about SERVQUAL.

- Effective tool for surveying customer satisfaction based on exploratory and empirical research
- Based on service quality gap model
- Tracking service quality trends through periodic customer surveys
- Helps organizations to compare customers' perceptions and expectations of service quality over time

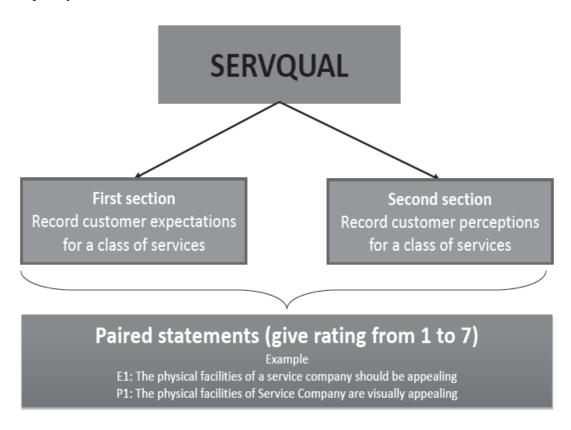


FIGURE 15.8: SERVQUAL: A TOOL TO MEASURE SERVICE QUALITY

# **Scope of Service Quality**

A comprehensive view of service system should be captured to measure service quality

#### Ø Content

- · Are standard procedures being followed?
- Standardization and reviewing established procedures of a particular service to assure compliance.

#### Ø Process

- · Is the sequence of events in the services process appropriate?
- · Coordinated use of service resources- using check sheets

#### Ø Structure

- · Are the physical facilities, support equipment and organizational design adequate for the service?
- · Skill, knowledge level and experience of employees and profession should support organizational design

#### Ø Outcome

- What change in status has the service effected in terms of measure of service quality outcome?
- Devise mechanisms to measure quality outcome for customer satisfaction may be in the form of complaints and feedback.

### Ø Impact

• What is the long range effect of the service on the customer and on the society as a whole?

### 15.5 SERVICE RECOVERY

Complete avoidance of service failure in any organization is inevitable. Service failure can happen when service organization fails to deliver as per customer's expectations. Service failure can result in the loss of customer forever. Any service organization puts maximum effort in retaining old or regular customers to enhance customer loyalty. It is well known fact

that attracting altogether new customer is costlier than retaining old customers. Service failure may invoke feelings of mistrust in customer's perception about service delivery.

#### Causes of service failure

Even after giving due consideration to the service quality, the world class organizations may also face service failure. There can be many reasons of service failures some of them are mentioned below.

- Inexperienced employee
- Indifferent or rude behavior of employee
- Delay in service delivery or slow service delivery
- Equipment breakdown
- Power system failure

From the above reasons of service failures we can see some of the causes are within the organization's control but some of them are not. Whether a service organization can control or cannot control service failure, they can always prevent the damage due to service failure by solving the problem in quick and timely manner.

### **Defining service recovery**

Service recovery involves what a service provider does in response to service failures. The service failure can happen in core service or supplementary service. Any organization's failure to timely respond to the customer's problem may result in another service failure. Resolving the problem quickly and as soon as possible will help in avoiding second service failure and helps in retaining customers. Service recovery will also prevent losing customers to the competitors. Due to low entry barriers and high competition, it is very easy for the competitor to win over the dissatisfied customer or organization which fails to meet the customer's expectation.

### Example of service failure

Service failure can happen in a hotel in various following forms

• Defect in goods: Hotel fails to provide fresh and hot food and unavailability of food items mentioned in menu.

- Failure due to facility problems: Cleanliness of facility and absence of right and appropriate signs and directions.
- Failure due to unfriendly behavior: Rude behavior of employee at reception, limited options of modes of payments, long waiting time at reception.

### How service recovery is initiated?

Some of the service failures can be noticed specially if failure occurs due to service providers. But in most of the instances failures go unnoticed. Customer complains can be a good opportunity to recover from service failure. It is very important for service organizations to attend to customer complaints and encourage customers to complain.

The situation becomes worst if customer does not complain at all. The unsatisfied customers will spread bad word of mouth which may result in loss of any potential customer also. It is very important to understand why customers may feel reluctant to complain.

# **Considerations for service recovery**

It is very important to understand the customer's efforts, expectations or role in initiating service recovery. At the same time service organizations must realize the needs of service recovery.

- Cost considerations of customers: Customers incurs time and money in writing letters and calling to the organization. Ambiguity in service recovery rules or recovery system of an organization adds to the frustration to the customer.
- Aims of service recovery: Satisfy the customers by listening to the customer's complain. Aim to retain the customers and consider the service failure instances as learning to incorporate as preventive action.
- Customer's expectations from recovery systems: Customers expect compensation equivalent to their dissatisfaction.

### Service recovery strategies

1. Encourage customers to complain when they are not satisfied with service. The service organizations can have toll-free numbers for complaints and general queries and/or can offer rewards for suggestions. Effective complaint handling can help in improving customer loyalty as shown in Figure 15.9. The service organizations can also conduct regular surveys or interviews to know the reasons of lost customers.

**Example:** Most of the telecom operators call the customer after they request to terminate that particular service. They want to know the reasons for termination of service.

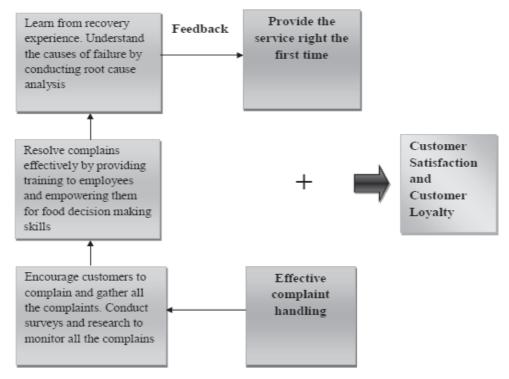


FIGURE 15.9: EFFECTIVE COMPLAINT HANDLING SYSTEM

- 2. The service organizations can take preventive action by anticipating the needs of service recovery. While designing service delivery process in service blueprint, service organizations can anticipate the potential failure points. Devising proper procedures to handle such failure points and providing training to the employees regarding such procedures will help in effective service recovery. For example, scripts can be made for the common service problems which can guide employees for service recovery.
- 3. Training and empowering employees who are directly involved in handling the complaints. They must be trained regarding the potential problems they may face related to service failures. The employees need to be trained for good communication skills and decision making skills. At the same time empowering them by giving authority to take corrective actions on time. This can be practiced by encouraging simulated situations of possible service failures and role playing methods to explore the methods of resolving problems pertaining to service failures.
- 4. Close the loop from generation of complains to effective recovery of service failure.

  There can be three possibilities to respond to the complaints as given below.

- The service organization cannot solve the problem. In such case give full explanation to the customer to close the loop
- The service organization can solve the problem by bringing some change in the service delivery system. Close the loop by informing the customer about the changes in service delivery system.
- The service organization is ready to solve the problem but may not be aware of solution. In such case customers can be asked for the suggestions and any possible improvements in service delivery system. Close the loop by informing the customers about the incorporation of customer's suggestions.

Adopt proper recovery action following appropriate ways to handle failure situation as shown in Figure 15.10 The service employees can apologize, assist the customer in rectifying the problem and compensate the unsatisfied customer. The compensation can be in the form of discount, coupon, free of cost service.

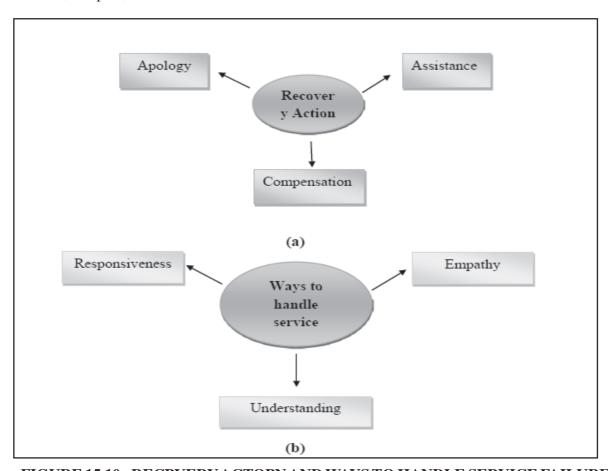


FIGURE 15.10: RECPVERY ACTOPN AND WAYS TO HANDLE SERVICE FAILURE

#### 15.6 SERVICE GUARANTEE

Service guarantee is one of the mechanisms to win customer's trust and commitment about the quality service delivery by any service organization. A service guarantee is a commitment the service provider gives to the customer concerning all or part of the service process and may also include a compensation for the customer if the commitment is not honored

#### Why service guarantee?

### 1. Focus on customer's requirements

It is very important to understand what exactly customer expects from a service organization while planning for service guarantee. It helps in aligning guarantee with service concept and customer's requirement.

# 2. Helps in setting clear standards of service

A guarantee should be clear and free from ambiguity then only it will focus on clear expectations of customers as well as employees of service organization.

# 3. Good source of feedback

As we have seen in service recovery section that many times customers do not feel comfortable to complain about service failures. Providing service guarantee increases the chances of attending to the customer's problems when something goes wrong. Getting feedback from customers act as input to quality improvement process.

### 4. Helps in understanding failure points

The data obtain in the form of feedback can be utilized to understand the causes of service failure. Utilizing information on service failures instances will help in designing better service delivery systems and improving training and selection procedures.

# 5. Act as a marketing tool

Due to low entry barriers in services there is huge competition between service organizations. Companies can offer different guarantee schemes which will help in attracting new customers while retaining older customers as well.

# Types of service guarantee

- Unconditional service guarantee: Guarantees 100% customer satisfaction without exceptions.
- **Conditional service guarantee:** Service provider intends to promote a certain element of the service offering.

# Criteria to offer service guarantee

There are five important criteria which service organization can consider while offering guarantee which is given in Figure 15.11.

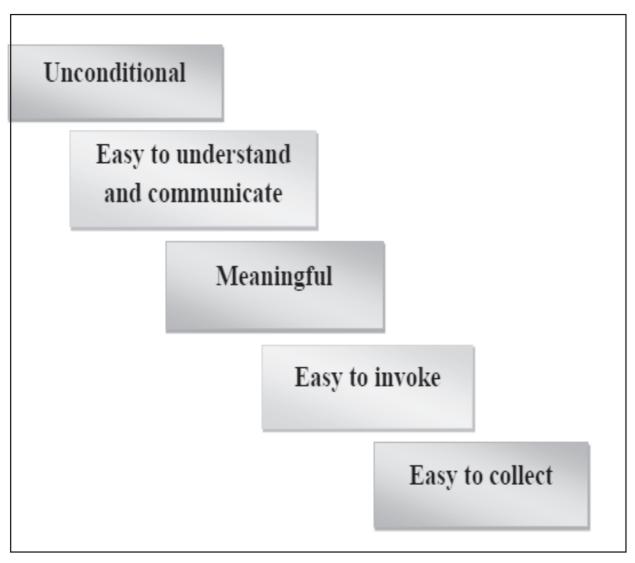


FIGURE 15.11 : CRITERIONS OF OFFERING SERVICE GUARANTEE

# Important factors for designing service guarantee

There are some internal and external factors which service organizations consider while designing service guarantee as given in Table 15.1

TABLE 15.1: IMPORTANT FACTORS FOR DESIGNING SERVICE GUARANTEE

	Factor	Description of factor
	Process fit	Guarantees offer should aligned with the service
		processes of service organization
INIERNAL FACTOR	Staff management	Support and cooperation of contact and support staff is
		essential for timely provision of guarantee
	Motivation of employees	Employees having clear understanding of guarantees in
		the form of realistic promises by service organization
		motivates them to honor guarantees and to participate in
		improvement of service delivery process
	Pricing strategy	Guarantee must be aligned with pricing strategy as the
		service organization has to spend on providing guarantee
		to customers in case of any failure, train employees and
		introduce and upgrade guarantee systems.
	Industry standards	Lack of industry standards in some type of services
		where variability in service supply is high
	Competition	Being the first one to offer guarantee provides
EXTERNAL		competitive advantage
FACTOR	Legal aspects	Guarantee must be treated as a legal contract considering
		all regulations governing any type of transaction to
		avoid negative implications later on
	Customer expectations	Providing guarantee is costly activity for a service
		organization. So it is important to understand the right
		customer expectations to spend the money in right
		direction
	Perceived image of the firm	A service organization with low perceived image can
		offer guarantees to attract and assure potential customers
		of good service quality
	Uncontrollable factors	Factors beyond the organization's control

15.7	NOTES						
		 	 	 	 	- <del></del>	

 			,	 	, ,		,
, , , , , , , , , , , , , , , , , , , ,			,	 	, ,		

#### 15.8 SUMMARY

This unit provides a general introduction to various service operations management practice. This unit aims to familiarize you with the major operational problems and issues that confront managers of services, and provide you with language, concepts, insights and tools to deal with these issues in order to gain competitive advantage through operations.

### 15.9 KEY WORDS

Service encounter, service guarantee, service recovery

# 15.10 SELF ASSESSMENT QUESTIONS

- 1 Discuss the various aspects of services encounter
- 2 Explain the concept of service failure and service recovery
- 3 How do you measure service quality?

#### 15.11 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# **UNIT - 16 ROLE OF TECHNOLOGY IN SERVICE**

# **Structure:**

- 16.0 Objectives
- 16.1 Introduction
- 16.2 Technology in Services
- 16.3 Forms of Technology in Services
- 16.4 Role of Internet in service or E-Commerce
- 16.5 Telemarketing
- 16.6 Case Study
- 16.7 Notes
- 16.8 Summary
- 16.9 Key Words
- 16.10 Self Assessment Questions
- 16.11 References

#### 16.0 OBJECTIVES

After Studying this unit, you should be able to:

- Appreciate the role of technology in services;
- Give an overview of E-Commerce and
- Provide a picture of Telemarketing.

### 16.1 INTRODUCTION

Service innovation has been considered as a new way to gain competitive advantage and enhance firm performance in a highly competitive market. In addition, technology is believed to encourage and facilitate service innovation. Although several service innovation studies have stressed the importance of technology in service innovation, the roles of technology in service innovation are at the center of debates in service innovation literature.

The contradictory situation induces the necessity to better understand the role of technology in service innovation.

### 16.2 TECHNOLOGY IN SERVICES

Technology in different firms can be seen in various types as shown in Figure 16.1

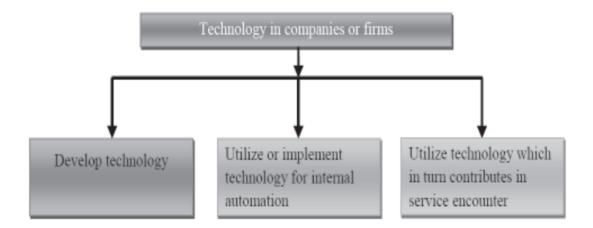


FIGURE 16.1: TYPES OF TECHNOLOGY ADOPTED BY DIFFERENT COMPANIES

# **Examples for Types of Technology in Services**

- Ø Service firms which develop technology
  - · Telephone companies
  - · Software developers
  - · Internet service providers
- Ø Service firms utilize or implement technology for internal automation
  - · ERP connecting all functions of manufacturing industry
  - · Extranet & internet connecting all supply chain partners
  - · Specialized functions outsourcing: transactions, e- procurement
  - Provide self- service technologies(SST) to clients like ATM, easy and convenient to use blood pressure or diabetics related digital gadgets
- Ø Technology that contributes in service encounter
  - Same old service supplemented by technology
  - · Same old service automated
  - · Provide quick and accurate service to clients
  - · Provide customization and convenience

The motivation of developing or utilizing technology by companies is shown in Figure 16.2

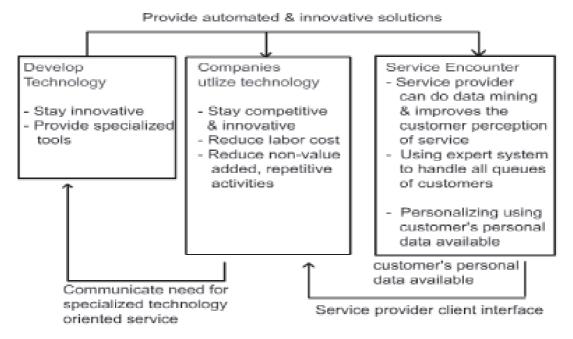


FIGURE 16.2: MOTIVATION TO ADOPT TECHNOLOGY

# **Technology and Service Competitiveness**

- A value chain in any organization is composite of primary activities and supporting activities where each activity is required to initiate cost reduction or differentiation strategies to create value collectively. Technology can act as a perfect binder or glue which links all the activities or functional areas of any company and hence facilitate to generate more valuable service. Each activity of any organization such as marketing, accounting, physical creation of product, procurement, after sales service etc. has two components; physical and information processing component. Information processing component can leverage on evolving Information technology and intelligent networks to enhance the value which transforms to competitiveness.
- Intelligent networks not only link computers within the organizations but also help in networking with suppliers and customers. The employees can share improvement activities among themselves and also with suppliers.

#### 16.3 FORMS OF TECHNOLOGY IN SERVICES

Technology and automation are central requirements for service development for most of the service organizations. Technology has completely revolutionized the services and changed the way we live. For example radio taxi service and tracking the location of courier or parcel.

The technology can be seen in various forms as mentioned below.

- · Integrated technologies
- · Integrated services
- · Service on demand
- Networking technology

### **Integrated technology**

- Coupled technologies like IT coupled with satellite tracking helps in making decisions based on the availability of real time information.
- Radio taxi using satellite technology where each radio car is GPS installed has become the preferred choice for commuters. It has very good integrated and centralized booking system which helps in making the car available within minutes to any preferred location of customer like MERU service in Delhi.

# **Integrated services**

Technology allows distinct but related services to work together to create many new
possibilities. Now a days, smart card options are getting popularized in many countries,
where the same smart card can be used to commute on various public transportation
systems like bus, metros, railways as well as buying limited credit of grocery at limited
grocery outlets.

# Service on demand

- Customers can order the products by sitting at home or from anywhere using various modes of technology like web, mobile.
- Customers can even get the delivery of the goods at home.
- There are many options to pay the bill through credit card, internet banking and mobile banking.
- By utilizing all the above options customers handles a greater control of the service and its delivery.

# **Networking technology**

- Intelligent networks comprised of links between computers and networks have provided the option of connecting all the employees within organization and connecting suppliers and customers
- These networks have facilitated information sharing and transmission of data among all the entities connected through intelligent networks. Employees can make informed decisions and avoid duplication of roles and efforts.
- It encourages knowledge management where a lot of repetition and ambiguity in serving a customer can be avoided.

#### **Technology in service example: 7-Eleven**

7-Eleven is famous convenience store chains in Japan which remain 24 hours open. Customers can order grocery through internet or using mobile with facility of making payments at the store while getting delivery from stores. Customers can order from home, office or

while commuting from office. Customers generally take the delivery at later date which gives the opportunity to 7-Eleven to stock less inventory. This reduces the space related costs and inventory costs of 7-Eleven. At the same time due to online ordering, 7-Eleven has added more items which need not to be stocked for longer in the limited space of retail stores.

# Modes in Which Technology act as Customer & Service Provider Interface

Customer can contact service provider either face-to-face or face-to-screen where technology plays different roles as shown in Figure 16.3 and 16.4.

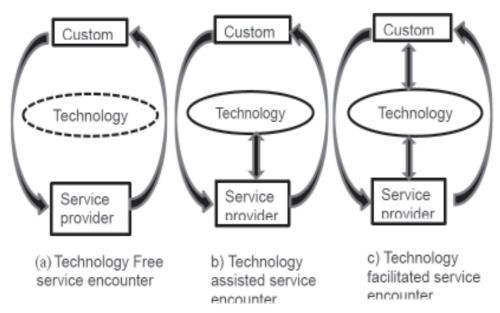


FIGURE 16.3: TECHNOLOGY IN FACE-TO-FACE CONTACT

### **Face To Face Contact: Examples**

# Ø Technology free service encounter

· High touch service like business consultant & client interaction

### Ø Technology assisted service encounter

- · Only service provider has access to the technology
- · For example ultra-sound scan of patient

# Ø Technology facilitated service encounter

- · Both customer & service provider has access to same technology
- Life insurance planner gives consultation using computer or web based insurance models

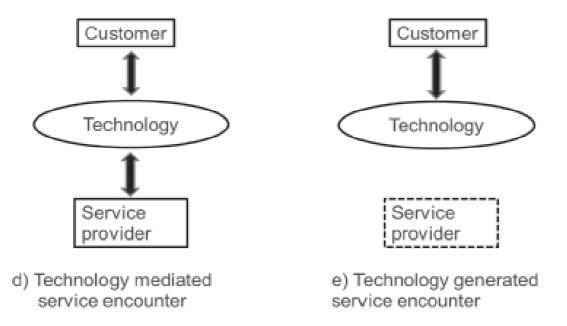


FIGURE 16.4: FACE-TO-SCREEN CONTACT

# **Face To Screen Contact: Examples**

# Ø Technology mediated service encounter

· Customer calling service provider over telephone to book tickets

# Ø Technology generated service encounter

· ATMs

# **Impact of Technology on Service Firms**

#### Ø Productivity

Introduction of Technology in services has reduced the labor as well as operating cost tremendously. It can be widely observed in banking sector where almost all operations are handled by the customers themselves over internet. It has reduced the number of personnel required in this sector.

### Ø Offering new services

 Technology has given an opportunity to offer new services like web based educational teaching and wider options of various software related tools on cloud computing

# Ø Reducing risks which can turn to be a costly event

· Installation of CCTVs and explosives detection devices at public places like airports and railway station helps in avoiding risks of attacks and infiltration.

#### Ø Control mechanisms

 Many operations can be controlled now by using Technology or Information technology. The courier service companies provide an opportunity to track the status of courier delivery. RFIDs have come as blessing for many logistics and transportation service providers which can track their vehicles for quick delivery of the orders.

### Ø Widening the reach of distribution channel

• IT has helped to increase the market segment from the local or regional reach to global reach. The online booking for hotels and airlines can be done anywhere from the world.

#### 16.4 ROLE OF INTERNET IN SERVICE OR E-COMMERCE

There is a dramatic shift in the way companies provide service over internet across all industries as shown in Table 16.1

Industry / Experience	Traditional Way	Internet / IT Application					
Shopping	Physical presence in the shop	Online buying					
Education	Classroom Teaching	E- learning					
Medical	Physical visit to doctor	Online consultation using Video conferencing					

#### TABLE 16.1 TRADITIONAL SERVICE PROVIDED OVER INTERNET

# Types of Internet Models Based on the Specialized Facility as Intermediaries

Ø Selling and buying products online

# Types of Internet Models Based on the Specialized Facility as Intermediaries

- > Selling and buying products online
  - · Amazon, travel or movie tickets
- Ø Provider of same information through supplemental channel
  - · Add website to convey information on all products

- Ø Online technical support
  - Dell and HP
- Ø Online entertainment or e-learning
  - Online games
  - · Video lectures
- Ø e-markets or e- trade
  - · Online auctions
  - · Reverse auctions
  - · Online buying & selling stocks
- Ø Communication/ transactions service using portals
  - · Email service news provider by Yahoo
  - · Document sharing by Google

# Service Operations Related Challenges In Managing Technology

- Ø Investments in the right technology as well as future-proof technologies
- Ø Reliable and up-to-date databases
- Ø Reliable technology
- Ø Capability to centralized the operations
- Ø Capable and competent staff to handle technology related issues
- Ø Trade-off between complete cut-off from personal touch with customer like self-service technology and retaining some personal touch.

#### **Economies of E-services**

For a customer electronic services are just like face-to-face services which exhibit simultaneity and intangibility. Along with other factors which makes the service hetrogenous (discussed in module 1) in electronic services, different hardware and network related capabilities makes the services more hetrogenous in terms of speed and reliability of e-service. Managing electronic services is equally challenging for service providers as shown in Figure 16.5. In e-services the revenues can be earned in the form of transaction fees, information and advise and commission and advertising fees. Due to nature of services, it is difficult to quantify the benefits of e-service

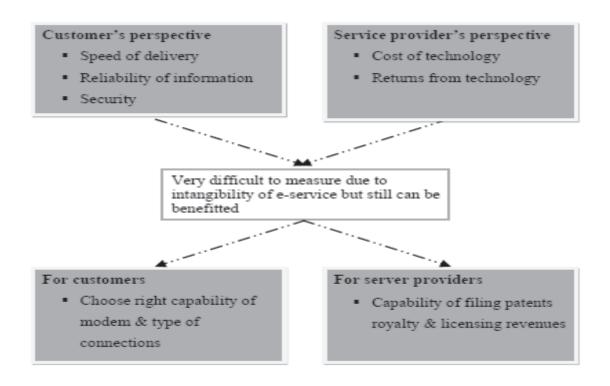


FIGURE 16.6: CHALLENCES IN QUANTIFYING BENEFITS OF E-SERVICES

#### 16.5 TELEMARKETING

#### **Telemarketing**

It's a marketing conundrum that the telephone offers the most direct method of getting through to potential customers, but also has the greatest capacity to irritate them. And with the volume of telemarketing increasing year upon year, it stands to reason that telemarketing campaign must be highly targeted and professional to get results. Failure in one or both of these areas can result in wasted resources and damaged business reputations.

#### What Is Telemarketing?

While telemarketing tends to be most strongly associated with thick skinned individuals hammering their way through a list in search of sales leads, it is actually a very broad term that applies to a multiplicity of both inbound and outbound telephone marketing. The oft quoted growth in telemarketing is due largely to the huge increase in the number of call centres handling high volume inbound and outbound business/consumer calls. This work includes for example, handling responses to an advertising campaign, or calling existing customers to offer additional services. Generally a differing set of skills are required for inbound and outbound telemarketing,

#### **Business To Business Telemarketing:**

Telemarketing can form an integral part of a sales and marketing campaign, either as a tool for gathering the data that will be the foundation for your direct marketing approaches, as a follow up to other forms of direct marketing, or as an up-front weapon for identifying best sales prospects. The most common functions of business to business outbound telemarketing include:

- 1. Improving marketing data: at a basic level this may include gathering the contact details of decision makers and their usage of products and services relevant to market, but further probing can deliver more in-depth information perhaps on distribution channels for example.
- 2. Telecleaning your existing data: it's your data, but is it a valuable asset? Only if it's clean and accurate. A professional team of telemarketers can ensure that your data doesn't embarrass you or let you down.
- **3.** Lead generation: using a team of dedicated telemarketers to do this tough, up-front work can make more cost-effective use of your often highly paid field sales or telesales executives by allowing them to focus on closing sales rather than chasing prospects.
- **4. Event planning:** if you're investing money in marketing events perhaps a seminar to introduce your company to likely sales prospects in your target market, or presenting a new product or service to potential customers telemarketing is an effective way to ensure the right people turn up in the right numbers. This method is often used as a follow up to a targeted mailing.
- 5. Direct mail follow up: telephone follow up to mailings is proven to increase returns, by between three and seven times as much in some cases.
- **6. Point of sale promotion:** for those distributing products through multiple channels, regular contact with distributors or resellers has numerous benefits. It can ensure that they are familiar with your products and have the right marketing materials to sell them successfully, but can also achieve the difficult goal of keeping your product/service at the forefront of their minds.
- 7. Company profiling: this offers the opportunity to go beyond the type of superficial prospect data held by most businesses and gain a full understanding of how potential customers operate. Information on aspects such as their decision making processes and who they currently purchase from enables much better tailoring of sales and marketing approaches.
- **8.** Customer contact: while all of the above functions are relevant to existing and potential customers, there is scope for more creative uses of telemarketing that have particular

relevance to previous/existing customers. For example: you've set up a new website - so call your customers to introduce them to this new way of doing business with them. Or if you change location or company name - as well as writing to your customers, call them - and perhaps take the opportunity to pass on new product information and/or a special offer.

#### **Working of Telemarketing**

Some people are skeptical of the cost effectiveness of certain types of telemarketing, and many marketers feel it is most appropriate to dealings with existing customers. But those who close their minds to wider opportunities risk missing out. Steve Massie, Marketing Manager of Desktop Engineering is clear about its overall value: 'Done properly, telemarketing will give you better quality market information than any other source. The whole point about telemarketing is that it allows you to talk to people on a one to one basis and gather information of a depth and accuracy you might not otherwise be able to get.' But Steve feels too many squander these opportunities: 'The problem is that most people don't do it properly. They don't target enough and misuse the technique which only ends up annoying people'.

Wijnand Mes, Marketing Manager for IBM Software Group UK, is also unimpressed by the overall standard of telemarketing calls he receives: 'Most are of poor quality by inexperienced individuals. I think telemarketing works best when supported by a personalised direct mailing as part of an integrated marketing communications process

So what makes for a successful telemarketing campaign? Of course the pioneers of telemarketing operated in less sophisticated markets and were able to throw together programmes of pretty much any sort to catch people's attention; they did not need the highly developed skills that today's telemarketers must have to extract valuable information from call weary prospects.

The following issues need to be considered for making tele marketing effective

- 1. Planning: you need to consider your budget, your objectives for the volume/quality of data you want, and your in-house resources, in terms of manpower, skills and equipment, compared to the cost of using an outside agency. Telemarketing rarely stands on its own; you need to establish how it integrates with your other sales and marketing activities.
- 2. Accurate data: as with all direct marketing methods, accurate data is the essential foundation for success. Naturally, successful targeting rests on speaking to the right

decision makers - getting data that includes this information may cost more but the outcomes are consistently more profitable.

- 3. A good script: an effective telemarketing script is actually not a script at all but a guide for the discussion that steers the listener in the direction you want him/her to go. It must be tailored to the target audience, must grab the attention of the listener within a few seconds of the conversation, and must be highly interactive; long presentations of information can be frustrating for the listener who is then less likely to focus on the issue being presented. The guide/script should be refined in the early stages of a campaign according to quality of responses received.
- **4. Skilled telemarketers:** no matter how well targeted the call is, nor how well thought out the script, a wooden and inflexible caller will not deliver the goods. To achieve the desired outcomes the telemarketer must have a good knowledge of the company and product/service they represent, be able to talk intelligently around the structure of the script without getting side tracked, absorb all the negative responses, and talk persuasively to people at all levels.

Wijnand Mes identifies another factor: 'It's important during the planning of all stages of the process to involve the people - sales team, business development managers and so on - who will follow up on the end product of the telemarketing activity. They have the clearest view of the type of information required to produce positive outcomes.'

#### **Insource Or Outsource**

Increasingly larger companies are recognising the value of developing in-house telemarketing teams. However, most businesses lack the resources to conduct a reasonably sized project in a practical time scale, for example say, contacting a thousand companies on their purchasing intentions for a particular CAD software within two weeks. All too often telemarketing is carried out with stretched and sometimes inappropriate resources, such as using highly paid sales staff to gather leads, or a harassed secretary to cram in as many calls as possible in between other duties.

It can seem a big step to trust another company to act as your surrogate telemarketers. For David Silsby, Sales & Marketing Manager of Premier Computing Corporation, it's a step made easier if he's sure they really know his business: 'You have to build a close relationship with the company and be sure they have a good knowledge of your target market, and that they are able to devote sufficient resources to developing an in depth understanding of your

products and services. I'd put the importance of a good relationship with the telemarketing company right up there with the key success factors for a telemarketing campaign'.

Factors to be considered for outsourcing of tele marketing

- 1. Find a company with experience of working in your industry and who shows an understanding of your target market as well your products and services. You'll have to be satisfied that they have staff with the right skills and knowledge and accurate data to ensure the credibility of your company is not undermined.
- 2. Make sure you clarify the objectives of the campaign with them and that these are included in their full proposal of how they will conduct the work.
- 3. Don't commit yourself to a full project to gather a specified number of leads or contact a certain number of companies; even for an agency that knows your market well it's very hard to predict a percentage of successful outcomes. Agree a pilot period to evaluate the project and refine or shelve it as necessary

#### 16.6 CASE STUDY

#### Introduction

with the Indian Government initiating the liberalization and deregulation process in the late nineties. the Indian Banking Industry changed completely. Liberalization and deregulation saw the entry of private sector banks into India. The caset gives an overview of the innovative services offered by the banks in India to stay ahead of the competition. this also pressurized the public sector banks to go for computerzation and adopt the state of art technology.

Most of these banks took the help of proprietary processes and technology to lanch innovative products to woo customers and differentiate themselves from the competition. Banks also started using thir ATMs as a means of differentiating their services, making them more accessible and attractive to consumers . They added bill payment and credit card payment options at the ATMs. ECS were made possible. In addition, the banks used service personnel as a means of differentitation.

These banks used state-of-the-art technology, had lean organizational structures, focused on specific customer segments, and set high standards of operations and customer service. They also adopted global practices, and developed core comperencies in the form of proprietary technologies and processes and brand building to differentiate them......

#### **Questions for Discussion:**

- 1. with the banking industry in India already cluttered with 289 scheduled commericial banks private sector players have resorted to proprietary processes and technology to differentiate themselves. What are the different means that banks have adopted to differentiate their services from those of competitors?
- 2. Banks have begun to lay emphasis on remote service encounters by encouraging customers to use ATMs and internet banking services for their banking transactions. Briefly discuss the pros and cons associated with the usage of remote service encounters.

16.7	NOTES						
		 ,,				 	 
		 	 	 	·——	 	 

						,
 	 	 	 <del></del>	 	 	 
 	 	 	 <del></del>	 	 	 
 	 	 	 <del></del>	 	 	 
 	 	 	 <del></del>	 	 	 
 	 	 	 <del></del>	 	 	 
 	 	 	 <del></del>	 	 	 

#### 16.8 SUMMARY

Technology has proved its benifits in all the sectors today, be it manufacturing or service. Contacting customers and make an effort to identify his needs and serve him to his fullest satssfaction is always a crucial and chullenging task. Technology has made this easy. With the help of online services, telemarketing selling across the globe is no more impossible.

Insurance, banking services are available online. All the required arrongemeents for tour and travel can be done on line.

To be competative in the present marke, one need to be technologically upgraded. Hence, in this unit, we have discussed about role of technology in service.

#### 16.9 KEY WORDS

Technology, E-Commerce, Telemarketing, web based marketing. outsourcing

#### 16.10 SELF ASSESSMENT QUESTIONS

- 1 Discuss the role of technology in services
- 2 Explain the types of technology in services
- 3 Discuss the functions of telemarketing
- 4 Write a note on e-commerce

#### 16.11 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology,* Bengaluru: McGraw-Hill, 2010.
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.



Mukthagangothri, Mysore-570006

#### DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

#### M.B.A III SEMESTER

#### **COURSE - 14**

#### **SERVICES MANAGEMENT**

#### **BLOCK**

5

#### **SERVICES MANAGMENT**

UNIT -17	
Human Resource Planning & Employee Selection in Service	
Organizations	278-293
UNIT -18	
Managing People in Service Organizations	294-305
UNIT -19	
Outsourcing	306-318
UNIT -20	
Globalization of Services	319-333

Prof. D. Shivalingaiah	Prof. T.D.Devegowda
Vice-Chancellor & Chairperson	Dean (Academic)(I/C)& Convenor
Karanataka State Open University	Karnataka State Open University
Muktagangotri, Mysore – 570 006	Muktagangotri, Mysore – 570 006
Editors	Co-Editor and Subject Co-Ordinator
Dr. C. Mahadevamurthy	Dr H. Rajeshwari
Associate Professor and Chairman	<b>Assistant Professor</b>
Dos & Research in Management,	Dos & Research in Management,
Karnataka State Open University,	Karnataka State Open University,
Mukthagangothri, Mysore – 570 006	Mukthagangothri, Mysore – 570 000
Course Writers	
Prof. S. Ramesh	BLOCK - 5 (Units 17 to 20)
Professor	
Dean, Department of Commerce and Management	
Mount Carmel College	
Bangalore	
Publisher	

#### Developed by Academic Section, KSOU, Mysore- 6, 2016

Karnataka State Open University, Mukthagangothri, Mysore - 6

All rights reserved. No part of this work may be reproduced in any form, by mimeograph or any other means, without permission in writing from the Karnataka State Open University.

Further information may obtained from the University's office at Muktagangotri, Mysore - 6

Printed and Published on behalf of Karnataka State Open University, Muktagangotri, Mysore - 6

#### **BLOCK - V: SERVICES MANAGEMENT**

Dear Learner, in the previous modules, you have learnt various dimensions of services management. You have been acquainted with designing of services, service blue print. You have also gained fair idea about financial services and marketing services management. In this module, let us study few other aspects of services management.

Managing people in a service organization is fairly a challenging task. Since services demands direct interaction with the customers, intensive training has to be imparted to the employees of an organization. Employees become assets in a service organization than in manufacturing organization. Hence talent retention is a major problem in service industry. Equally challenging jobs are recruiting, selecting and training.

Let us also concentrate on emerging trends in services. Technology has transformed the way we provide service. As you know this has led BPO and KPO to find place in India providing job to a significant percentage of our youths. Further let us also study JIT in services, global services and role of technology in services.

This last module has been divided in to four units

UNIT 17: Human Resource Planning & Employee Selection in Service Organizations

UNIT 18: Managing People in Service Organizations

**UNIT 19: Outsourcing** 

UNIT 20: Globalization of Services

### UNIT-17:HUMAN RESOURCE PLANNING & EMPLOYEE SELECTION IN SERVICE ORGANIZATIONS

#### **Structure**:

17.0	Objectives	S

- 17.1 Introduction
- 17.2 Role of human resources in Services
- 17.3 Types of human resources in services
- 17.4 Challenges of employees in Service organizations
- 17.5 Human Resource planning in services
- 17.6 Employee Recruitment and Selection
- 17.7 Notes
- 17.8 Summary
- 17.9 Key Words
- 17.10 Self-Assessment Questions
- 17.11 References.

#### 17.0 OBJECTIVES

After studying this unit, you will be able to:

- · Appreciate the role of human resources in service organizations;
- · Diiferentiate between the types of human resources in service organizations;
- · Identify the challenges of employees in service organizations;
- · Have a knowledge of Human Resource Planning and
- · Examine the methods of Selection in service organization.

#### 17.1 INTRODUCTION

People/Human resource is the key resource for service organizations. Human resource as a primary contact and many times direct contact with the customer can influence the perception of customer satisfaction. Employees play a very important role in service delivery system. It is necessary for any service organization to spend energy and time in human resource management. This unit discusses the human resource planning, Recruitment and Selection in Service organizations.

#### 17.2 ROLE OF HUMAN RESOURCES IN SERVICES

The human resource is organizations assumes a greater role as

- The interaction with the employee may influence customer's perception
- The vision of the firm is reflected through the employee's orientation towards service delivery system
- It is not only the technology and process design, but it is the person who directly contacts the customer, influences the most customers' perception.

Human resources are the efforts, skills and capabilities that people contribute to an employing organization. Human resource is a very important asset for any service organization which can help in achieving sustainable competitive advantage. In many service organizations like financial and technology based service companies, the brand value is measured according to the level of intellectual capital, human capability and commitment derived from human resources in the company.

#### 17.3 TYPES OF HUMAN RESOURCES IN SERVICES

- The service organizations generally employ large number of people or human resource which is a significant contributor to the variable cost of organization. The human resource employed in any service industry can be of following two types.
  - § Customer facing employees or front line employees such as human servers at bank tellers. This can be further divided into high-contact services and low contact services.
  - § Supporting employees of back office, not facing the customers, employees such as human resource professional providing recruitment and training services to colleagues.
  - We can see a large employee base in service industry like education, consulting, telecommunications. For example, Infosys has nearly one lake employees working all across the world.
  - The recent challenge in managing services is the global service network, where offices of
    service organizations especially like ITeS are located in different regions/countries. The main
    challenge is to search for the perfect match between global client expectation with the
    knowledge, skill and capacity of a team of employees located in different offices all across
    the world.
  - Managing human resources and their selection is based on the roles and jobs they perform.
     There can be many types of service personnel based on various categories as mentioned in following table

#### FIGURE 17.1TYPES OF SERVICE PERSONNEL

Basis of classification	Categories	Description of categories			
Background and the level of service	Professional service employees	Possess high level of education such as doctors and lawyers			
provided	Consumer service employees	Provide relatively standardized services such as salesperson at retail outlet			
Full time versus	Full time	Usually get fringe benefits and other allowances			
	Subcontractors	Security and housekeeping			
Type of job or	Blue collar	Factory workers			
work performed	White collar	Office workers			
	Skilled	Pilots, Doctors			
Skill	Semi-skilled	Operating personnel or maintenance personnel in airline industry			
	Unskilled	Personnel at Cash counters of any retail shops			
	Customer contact	Bank tellers and air hostess			
Customer contact	Non- contact employees	Managing databases of customer details			

#### 17.4 CHALLENGES OF EMPLOYEES IN SERVICE ORGANIZATIONS

A employee may face different kinds of challenges in service organization. For example, the stress level of a surgeon performing lifesaving surgery will be very different from the stress level of employee handling the billing counter at any super market. The challenges employee face can be organizational driven or customer driven.

#### 1. Organizational driven

- Lack of resources
- Conflicting performance targets
- Nature of job in terms of stress
- Rewards & appraisal system

#### Lack of resources

• Same person handling queries over phone and taking care of reception in some hotel.

#### **Conflicting performance targets**

• Productive target of reducing average call handling time versus the quality service to the customer by being courteous and spending more time.

#### Nature of Job

• Job performed by a lawyer with victim versus by a receptionist in some office.

#### **Rewards & Appraisal system**

- How to define performance standards in service organization?
- How much effort employees should put to perform?
- What is the amount of maximum ensured payments?

#### 2. Customer driven

- Constant presence & direct contact
- Each customer wants special personal treatment
- Customer's unrealistic expectations

Constant presence of customer may put employee under pressure because customer is observing all the activities of employee. Unrealistic demand of customer is another challenge for employees.

**Example:** A customer wants to use mobile phone in a flight while flying in air. This expectation is against the regulation of Airport Authority of any nation.

#### **Human Resource Management (HRM)**

Human resource management deals with acquisition & utilization of human resources. HRM is comprised of HR planning and selection and people management.

#### **Components of HRM**

The important components of HRM in Service organizations as follows

- 1. HRP
- 2. Recruitment and Selection
- 3. Training and Development
- 4. Organising Empolyees
- 5. Motivation
- 6. Evaluation
- 7. Rewarding
- 8. Retention

#### 17.5 HUMAN RESOURCE (HR) PLANNING IN SERVICES

Human resource planning deals in

- Having right number of people
- Representing right mix of people
- Located at right places & right time
- Aligned with organization's objectives & customer's expectations

Planning in advance to strike a balance between human required and human acquired. It is the process of forecasting the future demand for employees and supply of potential employees and bridges the gap between supply and demand to address issue of shortages and surpluses of human personnel.

#### Human resource planning in services

- Small service firms or large service firms
- Objectives of people joining service firms
- Type of skills required
- Long range planning versus short range planning
- Front line and back end employees

#### Examples of HR planning in services

- Small kiosks of Frankies need 2-3 persons per kiosk whereas a big hospital needs doctors, nurses and administration.
- Long term goal to be in one company or just short term plan with part time job.
- Specialist as in beauty saloon or a security guard.
- Fast food employees hiring can fall under short range HR planning versus HR planning in Airlines with long range focus.

#### HR planning based on customer contact

In services, the planning of human resources and hence recruitment and selection procedure is highly dependent on

- High contact and low contact services
  - \* Customer contact is the percentage of time a customer spends in service system.
    - <u>Example</u>: Low contact services can be seen in banks whereas high contact services can be seen in hotel industry and education.
  - \* High contact services are difficult to control because of longer customer contact hence requires greater interpersonal dynamics.

- Frontline and back office employees
  - \* The front end part of services is where customer comes into contact or the service system is accessible to the customer
  - \* The part of service system hidden from access and view of customer is back end services, which enables the front end services of service organization.
  - \* For a successful service, both front end and back end services have to be performed with utmost care.

**Example:** In any restaurant employees working in the kitchen or employees responsible of procuring raw food items are back end employees. Any delay in food preparation or quality of food will influence the quality of service regardless whether the back end employees come in contact with customers or not.

\* The type of skill that is interpersonal and technical skills for front end and technical skill for back end employees are very important to consider while recruiting a service employee.

#### Issues and challenges in HR planning in services

#### **High attrition rates**

• Depends on the employee satisfaction, motivation and leadership of the organization

#### High degree of customer interface

• Skill and expertise required and the discretion given to the employee

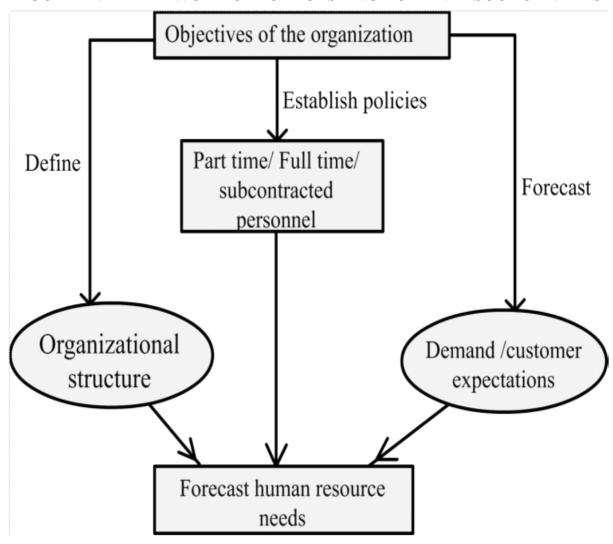
#### Managing cultural diversity

• Global presence serving region specific client.

#### Forecasting human resource requirements as shown in Figure 4.2 considering

- Length of planning horizon
- Constraints like overtime limitations, service capacity and cash flow in service organizations.

FIGURE 17.2FRAMEWORK OF FORECASTING HUMAN RESOURCE NEEDS



#### 17.6 EMPLOYEE RECRUITMENT AND SELECTION

#### Recruitment

• Identifying and attracting people who could fill positions within the firm and then securing them as applicants based on the required qualifications.

#### **Selection**

- Select based on the clearly established criteria for the performance of the job.
- Recruitment and selection is very important for service organization as the kind of people selected influences the culture of organization.

**Example:** Infosys have been collaborating with universities and building development centers to hire the bright and best human resource.

• We can see the steps of recruitment and selection followed by service organization in following figure.

#### Prepare a good job Specifications of specifications of description abilities required skills required Advertisement Develop a pool of Walk-in interview potential applicants College placements Employment Agencies Motivation Selection Testing **Process** Certification/ Interviews licensing Establish a clear Reference criteria for performance

#### FIGURE 17.1EMPLOYEE SELECTION PROCEDURE

#### Imperatives of selection & recruitment in services

Most of services need frontline employees, which directly interact with customers. It is important to select based on

- Flexibility based on situations
- Tolerance for ambiguity
- Empathy
- Age
- Education
- Sales related knowledge

#### Check the applicant's service orientation

- Abstract questioning
- Situational vignette
- Role playing

#### Methods of recruitment

The following are the methods of recruitment which have been followed by majority service organizations

- 1. Direct recruitment method
- 2. Indirect recruitment method
- 3. Third party recruitment method

#### 1. Direct recruitment method

- Companies visit various Universities and campus to interview students as potential employees face-to-face. The information regarding job profile and expectations from the employer is shared.
- It is adopted mostly where technical and professional skills are prime objective.

#### 2. Indirect recruitment method

- In this method companies advertise vacancies through media such as newspapers, magazines etc. to reach to a large pool of potential employees.
- Companies cannot recruit and select specific professional or technical skill. Less skilled jobs for which large supply of talent is available can be explored using this method.

#### 3. Third party recruitment method

- Recruitment done through third party agencies like employment exchange, private professional and consultancy services.
- Examples: In India many companies assist in e-recruitments like naukri.com and monster.com.

Most of the companies are going for online application forms and online assessment methods like McKinseys and Accenture, which can be inexpensive recruitment methods. The other way of recruitment can be through a good alumni network.

The recruitment methods can be evaluated based on the cost of recruitment per employee hired which generally includes advertising fee, agency fee, referral bonuses, cost of conducting campus interviews and walk-ins. The other way of evaluating recruitment method is by determining yield ratio. Yield ratio is defined as percentage of applicants from a recruitment source or recruitment agency that make it to the next stage of the selection process.

#### **Methods of selection**

- 1. Asking for Bio-data or biographical note
- 2. Personal interviews
- 3. Intelligence tests to test the quality of understanding or mental ability tests
- 4. Aptitude test to check the ability to acquire a particular skill
- 5. Achievement test to measure the proficiency of applicant's acquired knowledge

#### **Example:** Recruitment and selection stages of software companies

- 1. Phase 1: Aptitude test
- 2. Phase 2: Technical interview
- 3. Phase 3: HR interview
- 4. Phase 4: Final Interview

7.7 NOTES	
	•••••
	• • • • • • • • •

 •	 	 

#### **17.8 SUMMARY**

People constitute 7<sup>th</sup> P of service mix. Service personnel are those people who provide an organization's services for customers. Service people are important in all organization. However they are particularly important in those situations where in the absences of clues form the tangible products, the customer will form an impression of the organization from the behaviour and attitude of its staff.

Hence in this unit we have discussed about the human resource planning, recruitment and selection of them, the role and types of employees in service organizations.

#### 17.9 KEY WORDS

- 1. Human Resource Management
- 2. Human Resource Planning
- 3. Recruitment
- 4. Selection
- 5. Aptitude Test
- 6. Interview

#### 17.10 SELF-ASSESSMENT QUESTIONS

- 1. Explain the types of employees in Service organization
- 2. What is man power planning? Explain the importance of manpower planning in service organizations
- 3. What is recruitment? Discuss the methods of recruitment.
- 4. What is selection? Explain the methods of Selection

#### 17.11 REFERENCES.

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management : Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*

### UNIT-18: MANAGING PEOPLE IN SERVICE ORGANIZATIONS

#### **Structure:**

- 18.0 Objectives
- 18.1 Introduction
- 18.2 Training and Development
- 18.3 Organising Poeople/Employees
- 18.4 Motivating
- 18.5 Evaluating
- 18.6 Rewarding
- 18.7 Retaining
- 18.8 Notes
- 18.9 Summary
- 18.10 Key Words
- 18.11 Self-Assessment Questions
- 18.12 References.

#### 18.0 OBJECTIVES

After studying this unit, you will be able to:

- Appreciate the activities required to manage people in Services
- Identify the activities undertaken in Training and Development
- Explain different levels of training
- Describe Employee empowerment

#### 18.1 INTRODUCTION

Dear student, as discussed in the previous unit, human resource play a very important roule in determaining quality of service. We have discussed about recruiting and selection of empolyes

People/Human resource is the key resource for service organizations. Human resource as a primary contact and many times direct contact with the customer can influence the perception of customer satisfaction. Employees play a very important role in service delivery system. It is necessary for any service organization to spend energy and time in human resource management. This unit discusses the people management by ways of effective training programmes, rewarding employees, Organising, Motivating Rewarding etc.

After the selection of employees in any organization following activities are undertaken by human resource management

- Training & Development
- Organising people
- Motivating
- Evaluation
- Rewarding
- Retaining

#### **18.2 TRAINING AND DEVELOPMENT**

#### **Training**

A systematic method of changing an employee's behavior or to prepare the employee for a job or upgrade/enhance the employee's performance on the job.

#### **Development**

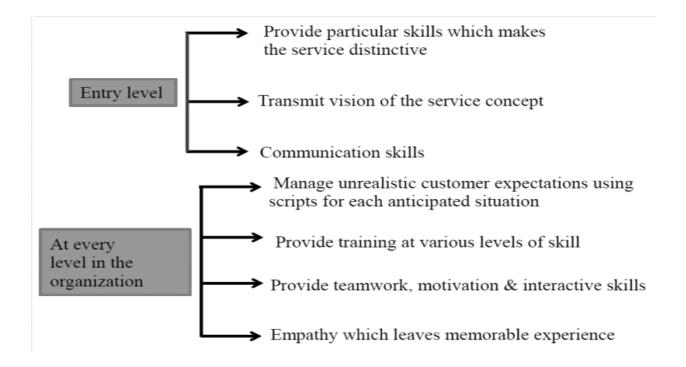
Prepare a person for broader responsibilities & higher level positions within the company. Training must be planned with clearly stated measurable objectives: ending with evaluation & effectiveness of training.

Dear student as discuss in the privies unit human resource play a very important role in deter meaning quality of service we have discuss about recruiting and selection of employs

#### Different forms of Training and Development in services

- Training and development programme provided by different service organization depends on the type of service organization, size of the company and the degree of attention given to training.
- Some service organizations like to hire specialists who are already trained, certified or licensed like doctors and pilots. In such services little training is provided about the procedures and services of the organization.
- Training required is very different in the companies where unskilled employees are hired at the entry level. They get on the job training by their fellow employees for example in retail stores.
- Training in some of the service organizations is so rigorous that companies take commitment
  in the form of contracts from the employees to serve organization for some particular number
  of years. The contracts mention the reimbursement of training expenses by the employees if
  employee leaves the organization before the contract period like in Information Technology
  enabled services.

FIGURE 18.1 DIFFERENT LEVELS OF TRAINING



Due to low barriers in entry, the technical aspects of any service can be easily copied. The only aspect which any service organization can leverage on competition is the set of soft skills people acquire in an organization.

#### **Examples:**

- 1. Disney provides orientation to the employees regarding the emotional aspects of the job.
- 2. In hotel industry employees are trained on each aspect of serving a customer.
- 3. To improve technical and interactive skills Mc Donald sends employees to 'Hamburger University'.

Training also helps employees perform at the desired level of expectation. **Example:** Employees will provide uniform service across all the outlets or branches such as Citibank.

Training can be provided in different ways like

- Send employees to universities for different programmes.
- Encourage employees to enroll for distance learning programmes.
- Courses and seminars transmitted through satellite linkages and video conferencing.
- Self-directed learning where individuals take initiatives to formulate learning goals by diagnosing specific learning needs.

#### **18.3 ORGANISING PEOPLE/EMPLOYEES**

Employees of service organisations need to be organised properly to achieve better results. The following are the four important dimensions of organising employees:

**Work assignment**- Classification of service jobs and assigning them to such personnel who have the capability as well as willingness to serve is a critical task. The qualities, qualifications and interests of the employee have to be thoroughly assessed before assigning a service job. A wrong assignment not only makes the service a failure, but also causes loss of customers. There is a lot of difference between handling a job and handling a job efficiently. Consumers normally possess the ability to perceive the difference in handling.

*Empowerment*- In service production and delivery process, frontline employees have to assess the exact needs of the customer and develop a customized service product. To per form these activities on the spot effectively, frontline employees need to be empowered. According to Zeithaml

and Bitner, "Empowerment means giving employees the desired skills, tools and authority to serve the customer". The key factor in empowerment is delegation of authority to allow employees to take decisions relating to interactive marketing. Empowerment makes the employee feel free in attending to unpredictable activities with customers, motivates him to modify the process and also makes him an innovator. Minor improvements are capable of attracting major responses from customers. Frontline employees can be the major source for developing minor improvements in service processes.

#### FIGURE 18.2 LEVELS OF EMPOWERMENT

# Suggestion involvement

- Lowest level of empowerment where employees participate in giving suggestions and ideas only
- For example Big Mac in Mc Donald was developed based on employees suggestion

### Job involvement

- Employees in this level handle whole identifiable piece of work with greater control of that work.
- · Mostly seen in jobs undertaken in a team

# High involvement

- Employees at all levels participate in decision making.
   Rewards and information sharing is encouraged.
- Teams in most of ITes companies work independently on projects with full autonomy

explains why people do certain things, think in common ways, and appreciate similar goals, routines, even jokes, just because they are members of the same organisation (Gronroos). Devis defined corporate culture as the pattern of shared values and beliefs that give the members of the organisation meaning, and provide them with the rules for behaviour in the organisation. A strong corporate culture empowers the people to act in a specific manner and to respond to various stimulations in a uniform way. A strong service-oriented culture in an organisation gets easily picked up by new employees. The existing employees help by sharing the norms and values. On the other hand, a weak corporate culture creates an insecure feeling for the new incumbent of the organisation. He or she may be under confusion as to how to respond to various dues and how to react in different situations.

A service culture cannot be developed overnight. Continuous and sustained efforts of the management over a period of time in designing work environment, human resource policies and efficiency of execution will naturally result in the development of a service culture. Good culture once developed becomes the core competency of the organisation.

**Team work**- Customers often perceive better experiences when employees work together as teams. Due to the nature of service jobs, which is sometimes frustrating, demanding or challenging, team work reduces the stress and strain of individual employees and helps them to maintain enthusiasm in work. Team work should be developed and promoted. It may require restructuring the organisation to develop market-based grouping. Creating teams and supporting effective team work, especially across functions, is important. There are many barriers and obstacles to overcome while implementing such strategies in most traditional organisations. However, if this exercise is done well, the benefits to both employees and customers will be tremendous.

#### **18.4 MOTIVATING**

Employee motivation is the key element in employee management. Employee motivation is particularly significant in services because of the human impact on buyer-seller interactions. Employees are often required to respond to new situations, unforeseen or even awkward to them. A motivated person alone can handle such situations properly and, thus, build the reputation of the organisation. What motivates an employee to perform quality service and to continue with the service organisation is the question for which the management has to search an appropriate answer. There are two important issues the management has to take care of particularly in motivating employees. They are promotions and treating employees as customers.

**Promotions**- Every employee looks for improvement in rank within an appropriate time span of his career. If an organisation does not provide opportunities to move forward in their careers, employees get frustrated and de-motivated. If they find opportunity elsewhere, they will quit the organisation. Service companies should realise the need for creating promotional opportunities for employees. If promotion is purely given by merit, the management can create a healthy competitive environment among the employees and motivate them to perform better.

**Treating employees as customers**- The basic concept of internal marketing propagates the theme of treating employees as customers. Employee-employer relations play a vital role in service performance. The management needs to understand the needs and want of the employees and offer value satisfaction to them, only then the employees may be expected to give their best to the

organization and are likely to stay with the organisation. An organisation can become the best place to work if four important principles are followed.

- (1) Treating employees as customers
- (2) Involving employees in decision making
- (3) Ensuring employee satisfaction and
- (4) Benchmarking and incorporating the best practices of human resource management.

In order to design programmes to satisfy the needs of employees, internal research and employee segmentation are useful approaches. Advertising and other forms of communication directed at employees can also increase their sense of value and enhance commitment to the organisation.

#### **18.5 EVALUATING**

Evaluation of performance of the employees is vital in internal marketing. It is necessary to develop systems that measure the performance of the employees.

**Feedback to management**- Management of service firms should collect feedback on employee performance regularly for several purposes. The feedback helps the management to identify areas for improvement, defects, and deviations from the quality specifications and initiate appropriate corrective action.

Feedback to employees- In the service industry, direct supervision may not be effective in assessing the performance and such measures, sometimes, become counter productive. Employees of service firms need to be provided support systems that can help evaluate performance by themselves and also report such performance to the top management. Therefore, the evaluation system not only has the capability of measuring performance but also has the capability of providing timely feedback to employees as well as to management. Corrective action can then be initiated when something is not in the order. A survey by internal employees, customer feedback surveys and so on are useful in designing and evaluating the system.

*Measuring performance*- Service firms need to develop an acceptable methodology for measuring the performance of employees. The measures should help employees to know their level of performance so that they can plan for further improvement. The performance measures help the management to recognize the merit, to identify training needs and to develop plans for motivating employees, if necessary.

#### 18.6 REWARDING

- Rewards can be given in financial forms & non-financial forms.
- The more content of discretion in services than prescribed content (widely seen in manufacturing) poses challenge to measure the effort put by employee in services.
- Rewarding systems are the best initiatives to retain employees.
- To introduce the right reward system a service organization must have clear performance measures in place with fair appraisal system.
- Small scale service organization may not be able to give financial rewards hence face difficulties in retaining employees.

#### **Example:** Discretionary content in services

In hospitals we found that nurses are treating different patients with human touch which varies from one nurse to the other. The patients might have different expectations based on their illness and recovery. In such situation it is very difficult to measure the efforts of nurses to reward them.

The bank employees have discretion to suggest the clients for different financial portfolios, investment schemes and or interest rates. The employees can use their own judgment and knowledge about competition to propose different portfolios to the clients. Such discretion is very difficult to measure and hence makes rewarding a challenging task for a service organization.

#### How to reward & compensate employees?

#### **Monetary Terms**

- Compensate by commission.
- Reduce cost of employment for the worker such as providing uniforms, reimbursement of petrol expenses, providing car to commute to office.

#### **Environment**

- Flexible working hours
- Good working office facilities
- Introduce service design approaches which increase the productivity of service such as encourage self-service technology

#### **Job Related**

- Allow participation of employees in giving suggestions.
- Create good image of organization so that workers should feel proud in working with the organization.
- Proper match of employee skill & job requirement.
- Structure jobs in such a manner that employees are encouraged to have control over their work and responsibilities.

#### 18.7 RETAINING

Hiring the right people is the beginning of a human resource policy. Retaining them is the real essence of the policy. When experienced and efficient personnel move out of the service organisation, the reputation, image and performance of the company will suffer. Service companies have to develop strategies to retain employees.

*Inclusion in the company vision*- One of the key elements of the retention strategy would be inclusion of employees in the 'company's vision'. When the employees are made part of the company's vision, they share not only the present benefits but also the benefits to be generated in future. This step helps employees to relate their personal goals with organisational goals. They try to share an understanding of the organization's vision. They feel motivated and committed to the organisation, when they understand how their work fits into the big picture of the organisation and its goals. Service companies should prepare a vision document and communicate it to all employees frequently to reorient them to achieve their organisational goals.

**Retaining the best employees**- In spite of an efficient process of recruitment, selection and training, it is impossible for any organisation to ensure that all the people hired are good and efficient. However, service firms cannot afford to retain inefficient and incompetent people in the organisation. It is important to retain the best employees and keep away unwanted employees. Employee retention strategy is not applicable to all the employees but only to the best performers.

18.8 NOTES


## **18.9 SUMMARY**

To manage the employees in service organizations, following activities should be undertaken.

- Training & Development
- Organising people
- Motivating
- Evaluation
- Rewarding
- Retaining

## **18.10 KEY WORDS**

- 1. Training
- 2. Development
- 3. Empowerment
- 4. Motivation
- 5. Performance appraisal

# **18.11 SELF-ASSESSMENT QUESTIONS**

- 1. What is training? Discuss the different forms of Training and Development in services.
- 2. Explain the important dimensions of organising employees.
- 3. Write a note on motivation.
- 4. What is empowerment? Explain the different levels of empowerment.

## 18.12 REFERENCES

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management : Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. Service Management and Operations. New Delhi: Prentice Hall, 2007.

# **UNIT-19: OUT SOURCING**

## **Structure**:

- 19.0 Objectives
- 19.1 Introduction
- 19.2 Outsourcing
- 19.3 Business Process Outsourcing
- 19.4 Knowledge Process Outsourcing
- 19.5 Differences between BPO and KPO
- 19.6 Human Resource Outsourcing
- 19.7 Manufacturing/Production Outsourcing
- 19.8 Notes
- 19.9 Summary
- 19.10 Key Words
- 19.11 Self-Assessment Questions
- 19.12 References

## 19.0 OBJECTIVES

After going through this unit, you should be able to

- Explain the concept of Outsourcing
- Discuss the concept of Business Process Outsourcing (BPO)
- Evaluate the concept of Knowledge Process Outsourcing (KPO)
- Describe the importance of BPO and KPO
- Identify the differences between BPO and KPO
- Differntiate between HR outsourcing and Production outsourcing

## 19.1 INTRODUCTION

Outsourcing is any task, operation, job or process that could be performed by employees within your company, but is instead contracted to a other party for a significant period of time. Hiring a temporary employee while your secretary is on maternity leave is not outsourcing. In addition, the functions that are performed by the other party can be performed on-site or off-site. The most common model of outsourcing that is in the news today refers to jobs that are being sent overseas to countries like India or China. This is more commonly called off shoring. Examples include telephone call centers, tech-support and computer programming. Outsourcing has been around as long as work specialization has existed. Customized offshore outsourcing solutions have created the need of established Business Process Outsourcing (BPO) methodologies. Business process outsourcing (BPO) is the contracting of a specific business task, such as payroll, to a other party service provider. Usually, BPO is implemented as a cost-saving measure that a company requires to maintain its position in the marketplace. In this unit, let us study about the concept and importance of Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO).

## 19.2 OUTSOURCING

Outsourcing is a management strategy by which an organisation contracts out its major noncore functions to specialised service providers with a view to benefit from their expertise, efficiency and cost effectiveness, and allow managers to concentrate on their core activities.

For example, most companies have so far had their own staff for cleaning and security activities in their organisations. But, of late many companies have started entrusting these tasks to outside agencies on contractual basis.

#### **Features of Outsourcing of Services**

The basic features of outsourcing of services are:

- (a) It involves contracting out an activity to an outside specialised agency which takes complete responsibility to handle it effectively using its own manpower.
- (b) Normally outsourcing is done in case of non-core activities such as housekeeping, security, etc. But, of late, it has been extended even to some of the core activities. For example, a school may engage a Computer Training Institute to handle computer education to its students or a bank may outsource its cheque processing.
- (c) There are two main forms of outsourcing the business processes;
  - (i) Outsourcing to a thirty party, and
  - (ii) Outsourcing to its own subsidiary company specially formed to handle a specific activity.

## Merits of outsourcing of services

- (a) It provides an opportunity to the organisation to concentrate on areas in which it has core competency or strength. It keeps the organisation free from repetitive and mundane functions.
- (b) It helps better utilisation of its resources as the management can focus its attention on select activities and attain higher efficiency.
- (c) It helps the organisation to get an expert and specialised service at competitive prices leading to provision of improved service and reduction in costs. The BPO organisations have considerable strength and adopt best practices to provide the service more efficiently.
- (d) It enables expansion of business as resources saved from outsourcing can be used for expanding the production capacity and the product line and seek new markets.
- (e) Apart from financial returns, it facilitates inter-organisational knowledge sharing and collaborative learning.

#### Limitations of outsourcing of services

(a) It may be opposed by labour unions who feel threatened by possible reduction in their strength and prospects.

- (b) It reduces confidentiality as outsourcing involves sharing a lot of information with others. This implies a possibility of its communication to the competitors by such persons.
- (c) Globalised outsourcing at times causes resentment in the manpower of the home countries who feel threatened by increased competition.
- (d) The organisation hiring others may face the problem of loss of managerial control because it is more difficult to manage outside service providers than managing one's own employees. Not only that, it may also lead to decrease or total loss of in-house expertise and the organisation becomes partially or totally dependent on the service provider.

In view of the above limitations of outsourcing, it becomes necessary for the outsourcing company to take the necessary preventive steps, remain in constant touch with the service provider, and maintain control of the outsourced operations.

#### 19.3 BUSINESS PROCESS OUTSOURCING

Business process outsourcing (BPO) can be defined as the act of giving another party responsibility of performing what would otherwise be an internal system or service. For instance, an insurance company might outsource their claims processing program or a bank might outsource their loan processing system. Other common examples of BPO are call centres and payroll outsourcing. Typically, companies that are looking at business process outsourcing are hoping to achieve cost savings by handing over the work to a third-party that can take advantage of economies of scale by doing the same work for many companies. Or perhaps the cost savings can be achieved because labour costs are lower due to different costs of living in different countries.

BPO is often divided into two categories: back office outsourcing which includes internal business functions such as billing or purchasing, and front office outsourcing which includes customer-related services such as marketing or technical support.

It provides wide range of tactical, powerful, flexible tools which in turn helps in achieving the business objectives in a cost effective and efficient manner. To put it in simple words a BPO (business process outsourcing) is a process in which a company delegates some of its business

processes to a other party on payment of some fee by passing over total control of process to them. This in turn cuts the operational costs considerably resulting into huge profits.

BPO's are inclined to provide better customer satisfaction leading to customer retention, increased productivity, deal with competition effectively and in turn increase profitability. There are

many kinds of work that can be outsourced to BPO's for e.g. Call/Help Centers, Medical Transcription, Billing, Payroll Processing, Data Entry, IT Services, Human Resources (HR) functions, etc. Due to the proximity of IT industry to BPO, this industry is also termed as ITES (Information Technology Enabled Service). But, BPO doesn't necessarily only provide IT Services.

BPO will be time and again, simply defined as, taking over non-critical business processes or a function of those processes, as well as the people and systems associated with them, in order to achieve service level improvements and cost savings. It is useful in leveraging the process towards driven efficiency and achieving responsiveness, branding, customer relationships and organizational excellence.

#### **Advantages of BPO**

An important aspect of business process outsourcing is its ability to free corporate executives from some of their day-to-day process management responsibilities. Once a process is successfully outsourced, they get more time to, explore new revenue generation activities, accelerate other projects, and focus on their customers.

By outsourcing their back office operations to third world countries, companies have the following advantages:

- **1. Achieve cost reductions** This is made possible through process improvements, reengineering, and use of technologies that reduce and bring administrative and other costs under control.
- **2. Key in on company's main business** With the day-to-day back office operations taken care of, the management is free to devote more time to building the company's core businesses
- **3. Obtain outside expertise** Rather than recruiting and training personnel, BPO ensures that domain experts from another company provide the needed guidance and skills.
- **4. Meet constantly changing customer demands** Many BPO vendors provide the management with flexible and scalable services to meet the customers' changing requirements, and to support company acquisitions, consolidations, and joint ventures.
- **5.** Achieving revenue increases By outsourcing non-core processes, companies can focus on increasing their sales and market share, develop new products, expand into new markets, and enhance customer service and satisfactions.

## 19.4 KNOWLEDGE PROCESS OUTSOURCING

KPO is a new phenomenon that is picking pace in India. It is "Knowledge Process Outsourcing". In simple words it is the upward shift of BPO in the value chain. Old BPO companies that used to provide basic backend or customer care support are moving up this value chain. "Unlike conventional BPO where the focus is on process expertise, in KPO, the focus is on knowledge expertise."

KPO involves off shoring of knowledge intensive business processes that require specialized domain expertise, thus delivering high value to organizations by providing business expertise rather than just process expertise. It is being claimed that KPO is one step extension of Business Processing Outsourcing (BPO). BPO Industry is shaping into Knowledge Process Outsourcing because of its favourable advantageous and future scope. But, let us not treat it only a 'B' replaced by a 'K'. In fact, Knowledge process can be defined as high added value processes chain where the achievement of objectives is highly dependent on the skills, domain knowledge and experience of the people carrying out the activity. And when this activity gets outsourced a new business activity emerges, which is generally known as Knowledge Process Outsourcing. KPO is involved in services like valuation and investment research, patent filing, legal and insurance etc. KPO can simply be explained as an off-shoring of knowledge concentrated business processes that needs specialized domain oriented expertise.

Knowledge process outsourcing (KPO) is the allocation of relatively high level tasks to an outside organization or a different group (possibly in a different geographic location) within the same organization. Most low-level BPO jobs provide support for an organization's non core competencies and entry-level prerequisites are simply a command of English and basic computer skills.

Knowledge process outsourcing jobs, in comparison, are typically integrated with an organization's core competencies. The jobs involve more complex tasks and may require an advanced degree and/or certification. Examples of KPO include accounting, market and legal research, Web design and content creation.

KPO and BPO are often conducted through off-shore outsourcing as corporations seeking the most value for the least money source projects to countries where wages are lower. Because KPO jobs may bring in more money to the economy as BPO, countries such as India are actively promoting development of that industry.

#### **Advantages of KPO**

- 1. Accelerate Reengineering Benefits: Reengineering aims for drastic improvements in critical measures of performance such as cost, service, quality and speed. But the need to increase efficiency comes into direct conflict with the need to invest in core business. As non-core internal functions are continually put on the back seat, systems become less productive and less efficient. Therefore, by outsourcing a non-core function to a competent provider, the organization can realize the benefits of reengineering as an outsourcing benefit.
- **2. Access to Top Class Capabilities:** Good and competent providers make extensive investments in technology, people, and methodologies. They acquire expertise by working with many clients facing similar challenges. This combination of specialization and expertise ensures the customers a competitive advantage and helps them avoid the cost of acquiring technology and training.
- **3. Cash Infusion:** Outsourcing often involves the transfer of assets from customer to the provider. Equipment, vehicles, facilities, and licenses used in the current operations contain value and are sold to the vendor.

The vendor uses these assets to provide services back to the client. Depending on value of the assets involved, the said sale may result in a significant cash payment to the customer. While selling these assets to the vendor, they are typically sold at book value. The book value normally is higher than the market value. In such cases, the difference between the two actually represents a credit line from the vendor to the client which is repaid in the form of price of the services over the life of the contract.

- **4. Optimal use of resources:** Every organization has limitations to the resources available to it. Outsourcing allows an organization to redirect its resources, mostly human resources, from non core activities toward activities which serve the core need of customer. The organizations can redirect these human assets or at least the staff slots they represent for greater value adding activities. People whose energies are currently focused on internal activities can now be focused externally on the customer.
- **5. Solution to difficult problems:** Outsourcing is certainly one option for addressing the problem of managing difficult activities requiring core technical skills. It is essential to remember that outsourcing doesn't imply abdication of management responsibility nor does it work well as a solution to solve critical and suddenly erupting trouble of a company. However, a company can outsource only those difficult problems which it understands properly because if the organization doesn't understand its own requirements, it won't be able to communicate them to an outside provider.

- **6. Focus on main business**: Outsourcing allows a company to focus on its core business by having operational non core functions assumed by an outside expert. Freed from devoting energy to these non core areas, the company can focus its resources on meeting its customers' needs.
- **7. Best use of financial resources:** There is large amount of competition within most organizations for capital funds. The senior management is always in a fix to decide where to invest the capital funds. It is often difficult to justify non-core capital investments when core areas directly related to producing a product or providing a service compete for the same money. In this context outsourcing can reduce the need to invest capital funds in non-core business functions. Outsourcing can also improve certain financial measurements of the company by eliminating the need to show return on equity from capital investments in non core areas.
- **8.** Cost reduction: Companies which attempt to do everything themselves generally incur higher research, development, marketing and deployment expenses, and all of these are passed on to the customer. The outsourcing can help a company to reduce its costs as an outside provider's lower cost structure, normally as a result of a greater economy of scale or other advantage based on specialization, reduces a company's operating costs and increases its competitive advantage.
- **9. Minimum Risk**: Tremendous risks are associated with the investments made by the organizations. Markets, competition, financial conditions, Government Regulations and Technologies all change quickly. Further, it is very risky to keep up with these changes, especially those in which the next generation requires a significant investment .However, in outsourcing providers make investments on behalf of many clients, not just one and shared investment spreads risk, and significantly reduces the risk borne by a single company.

## 19.5 DIFFERENCES BETWEEN KPO AND BPO

**Knowledge Processing Outsourcing** industry is entirely different from Business processing outsourcing industry. KPO require expertise having domain knowledge. They are highly skilled and business experts as they handle more dexterous work which requires experience where as BPO industry is more about size, quantity and competence. The major difference is that BPO insist for labor and requires less skilled employees while KPO requires highly knowledgable employees in the area that is outsourced like lawyers, doctors, MBA and skilled engineers. The difference between KPO and BPO can also be analyzed on the bases of cost competitiveness, the salary of KPO employee is much higher than offered to the BPO employee as the people working for KPO are highly qualified such as Engineer, Doctor, CA, Lawyer etc. BPO provides services like customer

care, technical support through voice processes, tele-marketing, sales, etc. whereas KPO provides in-depth knowledge, expertise and analysis on complex areas like Legal Services, Business &Market Research, etc. BPO requires application, understanding of business and analytical bent of mind. Employees in BPO are not- so- qualified as it focuses on communication skills whereas KPO involves skill and expertise of knowledge workers with excellent educational background.

## 19.6 HUMAN RESOURCE OUTSOURCING

HR Outsourcing is basically the allotment of specific HR activities to a more specialized third party service provider.

Human resource outsourcing (HRO) occurs when a business instructs an external supplier to take responsibility (and risk) for HR functions and perform these tasks for the business.

Recruitment, Selection, Training, Performance appraisal are the some of the activities which have been outsourced.

Some businesses will outsource their entire HR department while others will just outsource time-consuming administrative tasks, which allow their internal resource to focus on the strategic level.

#### Motives for HR outsourcing

- Reduce Costs
- Focus resources on core activities and core competencies
- Expand and improve services
- Benefits from Vendor's investments and innovation
- Improve career opportunities for staff
- Increases Flexibility

#### 19.7 MANUFACTURING PRODUCTION OUTSOURCING

**Production outsourcing** denotes the process of transferring manufacturing and related support functions to outside companies, whether those companies are onshore or offshore

Reasons for Outsourcing in a Manufacturing Industry

#### **Labor Costs**

Part of any analysis for a manufacturing company deciding to outsource any of its operations includes the cost of labor. Labor remains one of the biggest costs of any manufacturing company.

Having employees on the company payroll means paying them a competitive wage and, for most companies, it also means providing some form of employee health benefits. But outsourcing labor costs doesn't always mean moving the production to another country. Companies can outsource labor simply by using workers from temporary agencies instead of having employees on the payroll. Benefits for the company that outsources its labor include the flexibility of increasing or decreasing staffing needs as required, a lower hourly wage paid to a temporary worker than that of a comparably skilled fulltime employee and less employee healthcare benefits expenses.

#### Overhead Cost

Many United State companies have outsourced their manufacturing to eliminate the overhead cost associated with operating a manufacturing facility stateside. These overhead costs include utilities, such as gas, electric and water, and the maintenance required to operate production equipment. Other overhead costs include indirect labor such as quality assurance personnel, equipment technicians, material handlers, and shipping and receiving personnel.

#### **Flexibility**

Some manufacturing companies have gained increased flexibility by outsourcing their production. Typically, production gets outsourced to a contract manufacturer, or a company that produces goods under the label or brand of another firm. Contract manufacturers might produce goods for two or more companies, and even for competitors within the same industry. Since the contract manufacturer has more production capacity (the ability to produce more goods) than the original manufacturing company, it can respond to increased production requirements faster than the original manufacturer. Instead of the original manufacturer making a capital investment in new equipment to increase its production capacity, it informs the contract manufacturer that it requires more goods. Although the requested increase (or decrease) in production might change the terms and costs associated with the original production contract, it's more flexible than making a one-time capital investment that could sit idle if the increased demand diminishes.

#### Focus

Some companies have experienced extreme paradigm shifts that have prompted them to outsource their manufacturing. A company that realizes its core competency, the thing it does best, is the sales and marketing of its product and not the production of its product may often choose to outsource its non-core activity, or the manufacturing of its goods. With the production outsourced, the company can now focus its resources, both human and financial, on the areas that increase revenue and profit. Normally, outsourcing reduces manufacturing costs, so if the company increases its revenue through a better focus on sales and marketing, it increases its profit margin as well.

19.8 NOTES

## **19.9 SUMMARY**

Business process outsourcing (BPO) is the contracting of a specific business task, such as payroll, to a third-party service provider. Usually, BPO is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace. Advantages of BPO are: cost reductions, attention on main business, outside expertise etc.

KPO involves off shoring of knowledge intensive business processes that require specialized domain expertise, thus delivering high value to organizations by providing business expertise rather than just process expertise. Benefits of KPO are: Accelerate Reengineering Benefits, Access to Top Class Capabilities, manage difficult functions, focus on core business, make funds available for long term period etc. Main difference between the two is that BPO insist for labor and requires less skilled employees while KPO requires highly knowledge in the area that is outsourced like lawyers, doctors, MBA and skilled engineers.

HR outsourcing, Production outsourcing etc. are the major concepts which have been comes under Outsourcing.

#### **19.10 KEY WORDS**

- 1. Outsourcing
- 2. Business Process Outsourcing
- 3. Knowledge Process Outsourcing
- 4. Human Resource Outsourcing
- 5. Manufacturing Outsourcing

# 19.11 SELF-ASSESSMENT QUESTIONS

- 1. What do you understand by outsourcing?
- 2. Define Business Process Outsourcing. What are its advantages?
- 3. What is meant by Knowledge Process Outsourcing? Explain it advantages.
- 4. Distinguish between Business process outsourcing & Knowledge process outsourcing.
- 5. Write a note on Human Resource Outsourcing
- 6. What is manufacturing outsourcing? Explain the Reasons for Outsourcing in a Manufacturing Industry.

# **19.12 REFERENCES**

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology, Bengaluru: McGraw-Hill, 2010.*
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi : Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.

# **UNIT-20: GLOBALIZATION OF SERVICES**

# **Structure:**

- 20.0 Objectives
- 20.1 Introduction
- 20.2 Globalisation
- 20.3 Branding in Services
- 20.4 Just in Time
- 20.6 Notes
- 20.7 Summary
- 20.8 Key Words
- 20.9 Self-Assessment Questions
- 20.10 References.

# **20.0 OBJECTIVES**

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

- Explain the concept of globalization;
- Examine the concept of global entry strategies for services;
- Identify the need for branding for services and
- Implement the concept of Just in Time.

## **20.1 INTRODUCTION**

International business is affected by the global market, in which many companies of different countries are involved in exchange of their products and services with the capital of the customers. The customers belong to different countries. This exchange of product, Service and capital affects the position of a company in the foreign exchange market. Position of a company in the foreign exchange market also determines the profit of the company. This means if a company has a good position in the foreign exchange market, then it shows that the company is earning profit. There are many reasons apart from obtaining good position in the foreign exchange market that inspire a company to enter the global market, those are discussed below.

#### **20.2 GLOBALISATION**

Globalization refers to the free movement of goods, services, people, capital and technology across various countries in the world.

#### 20.2.1 Globalising services

Some of the reasons for globalizing services:

- To acquire new opportunities for increasing life cycle of their product
- To secure required resources for producing desired service
- To get raw materials for their service development that are not available in their country
- To achieve low cost for producing a service which can be possible due to the low cost of land and labour in another country. When a company acquires globalization, it enjoys many benefits, such as:

Involvement of a company in the global market increases the economy of scale of its service. Increased economy of scale provides a good position in the global market to a company.

When a company establishes its branches across the world, then there is a need to combine many activities such as service development, marketing and purchasing related to the service into a single unit. Unification of many activities into one unit saves cost of the company.

Globalization of a company exposes its employees to the international environment that helps the employees to gain international experience in specific fields such as marketing and distributing.

#### **Market Entry Strategy Options for services**

A company can use one of the following options to formulate a strategy to enter the global market:

- 1. Contractual agreement
- 2. Joint venture
- 3. Consortium
- 4. Strategic alliance
- 5. Subsidiary
- 6. Turnkey project

Let us briefly discuss these options.

## 1. Contractual agreement

Contractual agreements are responsible for transferring technologies and human skills, processes and trademarks. Licensing and franchising are two different contractual agreements that are mostly used to enter the global market.

#### 2. Joint venture

A joint venture (JV) is a type of strategic alliance in which at least two companies take part in an economic activity, creating a new entity through contribution of equity, and sharing of control, revenue and expenses. The joint venture is for one particular project or for a continuing one.

The main difference between a strategic alliance and a joint venture is that the latter is a separate entity in the eyes of the law while the former is only a relationship between different companies. The participating companies in a JV must acknowledge each other's share in managing it and each partner has an equity position. A JV is only created as a partnership between entities that are legally incorporated, such as companies, governments and chartered organizations.

#### 3. Consortium

Consortia are similar to joint ventures except that they comprise of a large number of participating companies, and they most often function in markets not supported by any of the participating companies.

#### 4. Strategic alliance

A strategic alliance is used as a competitive strategy to enter into the global market. It refers to a business relationship between at least two companies to achieve a common goal. All the companies that are involved in the strategic alliance also share the risks.

#### 5. Subsidiary

A subsidiary is a sub-branch of a company that may or may not be located in another country. The main branch of the company is known as the parent company and it holds the maximum share of the subsidiary. A main branch has a number of subsidiaries in different countries. The combination of the main branch and its subsidiaries is called a group. When ownership of a subsidiary is not sharable, it is called a wholly owned subsidiary.

#### 6. Turnkey project

Turnkey projects are those that are taken up by companies in foreign countries, such as construction work in the UAE. They are typically based on the 'Build, Operate and Transfer' (BOT) principle. Turnkey projects allow a company to establish itself in the global market and have fewer risks than direct investment in a foreign market. However, such projects are vulnerable to competition, and do not have any long-term stakes.

#### **20.3 BRANDING IN SERVICES**

To avoid the consequences of a commodity classification, service firms use branding to assure the consumer they will receive uniform service, the quality of food and service provided at Burger King tends to be the same across all locations. Consumers know what to expect regardless of which outlet they patronize. Because consumers know what to expect, in new situations they will often choose a Burger King or other brand name fast-food facility rather than choose a local firm with which they have no experience with. For service firms, branding provides value by enhancing the efficiency and effectiveness of the marketing programs. Brand loyalty and repeat purchase leverage their

positions through brand extensions, higher prices, and higher margins. A highly established brand name can provide a firm with a strong competitive advantage.

Holiday Inn was the first to introduce a brand name to the hotel industry. The brand name was a major reason for Holiday Inn's tremendous growth. It allowed the Holiday Inn to transform a commodity type service into differentiated service. To maximise the benefit of a brand, service providers should meet the following characteristics:

- The brand is distinctive.
- The brand is relevant
- The brand has a tangible quality.

The company's most important services are branded and linked. In branding, a company must decide if it wants to use a single brand or multiple brands. The primary reason for using a single brand name is to capitalize on strong brand name that will demonstrate consumer preference. As the low end of the hotel segment are single brand firms such as Motel 6, Red Roof, etc. at the high end are single brand firms such as Hilton, Hyatt, etc. In the middle segment are firms such as Quality Inn, Holiday Inn, etc. As services are not physical objects, they cannot be touched, seen or smelt. Physical goods can be touched, seen, tasted, smelt or heard before they are bought. We can market services by emphasizing the benefits and the satisfaction offered. Service itself cannot be a primary object of promotion. Credit cards per se are useless pieces of plastic. However, the power to buy a variety of things at 90,000 different establishments with this piece of plastic makes it a useful product. Services carry with them an array of perceptions. It is an abstract concept.

However, there are always some tangible elements, which enable us to evaluate services, e.g., in a flight, the tangible elements are the experience at the airport, on-board services and the in-flight entertainment. But these are not comparable to a TV set or a suit where the total product is seen. As services are abstract, they are given reality through tangible elements, e.g., a law firm is evaluated on the basis of its turnover, size, track record, and location. All these elements create a brand image. Further, these are intangible elements are associated with service brands; these brands tend to be commoditized. Service brands are made tangible so as to make their perception consistent and common amongst consumers. The tangibility is imparted by using as many physical elements as possible which could be associated with the brand, e.g., staff uniforms, ambience, interior decor, music when customers are on hold, use of colours, stationery, brochures, pack-ages, design of physical facilities. These elements must be consistent with the service. There should be a holistic approach; Physical evidence must go well with

the brand, convey a consistent message, and appeal to the target audience. We should seek the additional opportunities to provide physical evidence for the service.

## **Service Brands and Manpower**

Services are represented by the manpower. In so many cases, they are the only point of contact for the consumer. If the staff is properly trained arid well behaved, the chances of the service brand being successful are greater. Service quality is influenced by the following factors related to the manpower:

- Appearance: Elegantly dressed staff is a must for the service brand. Shabbily dressed staff cannot sell high profile services.
- Responsiveness: Manpower should be sensitive of the needs of the consumers. In a cinema hall, a family can be given corner seats.
- Assurance: If there are snags, the manpower courteously informs the consumers and also informs them about the steps being taken to rectify the problem.
- Empathy: A crying child is given a chocobar in a restaurant. Manpower tries to comfort the child, and of course, the family and fellow customers too.
- Reliability: Track record is built by providing reliable service. Manpower who is satisfied on the job leads to consumer satisfaction.
- Staff motivation is an area which requires utmost managerial attention. Right from manpower
  planning to selection to supporting and retention of manpower, the personnel aspects do go a
  long way in developing the right service brand. Customer service should become the second
  nature for all employees. Such an organisation culture cannot be created overnight, but it is
  worth the effort to accept the challenge.

#### **Service Brands and Consumer Participation**

Consumer participation greatly influences the perception of a service brand. A particular swimming pool may be very good, but a person whose experience with the swimming coach is not good, may complain about the quality of the swimming pool itself. There are different degrees of consumer participation. There is low participation in restaurants and air flights. Here the consumer's presence is necessary, and the service personnel render the whole service. Even courier services have low consumer involvement.

Consumers rarely see their infrastructure. They interact telephonically with the courier company for a short while. We can provide standardized offerings of such services. The procedures are well defined. In the financial sector, the participation is limited, say in a bank branch, consumer is expected to fill in a pay in slip while depositing cash, and tender the cash across the counter, and get back duly stamped acknowledgement. But the bank staff does the major portion of work. But in a health club or business management school there is higher level of consumer participation. They take active part in a weight reduction programme. They hold themselves responsible if the results are not satisfactory. They are very happy when the service provider tries to solve the problem. Because of high degree of participation, organisations design customized offerings for the consumers. Consumer participation is also an educative process. A consumer must master telephone banking or mobile banking before getting its benefits. Even Internet banking is a participative process requiring effort on the part of the consumer. But consumers gain benefits on account of such participation, e.g., utility bills can be paid through Internet from anywhere.

# **20.4 JUST IN TIME**

JIT is an inventory strategy, companies employ to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, thereby reducing inventory costs.

This method requires that producers are able to accurately forecast demand.

A good example would be a car manufacturer that operates with very low inventory levels, relying on their supply chain to deliver the parts they need to build cars. The parts needed to manufacture the cars do not arrive before nor after they are needed, rather they arrive just as they are needed.

This inventory supply system represents a shift away from the older "just in case" strategy where producers carried large inventories in case higher demand had to be met.

# 20.4.1 Just in Time in Manufacturing goods

Just-in-time manufacturing was a concept introduced to the United States by the Ford motor company. It works on a demand-pull basis, contrary to hitherto used techniques, which worked on a production-push basis.

To elaborate further, under just-in-time manufacturing (colloquially referred to as JIT production systems), actual orders dictate what should be manufactured, so that the exact quantity is produced at the exact time that is required.

Just-in-time manufacturing goes hand in hand with concepts such as Kanban, continuous improvement and total quality management (TQM).

Just-in-time production requires intricate planning in terms of procurement policies and the manufacturing process if its implementation is to be a success.

Highly advanced technological support systems provide the necessary back-up that Just-in-time manufacturing demands with production scheduling software and electronic data interchange being the most sought after.

#### Advantages Just-In-Time Systems

Following are the advantages of Adopting Just-In-Time Manufacturing Systems

- Just-in-time manufacturing keeps stock holding costs to a bare minimum. The release of storage space results in better utilization of space and thereby bears a favorable impact on the rent paid and on any insurance premiums that would otherwise need to be made.
- Just-in-time manufacturing eliminates waste, as out-of-date or expired products; do not enter into this equation at all.
- As under this technique, only essential stocks are obtained, less working capital is required to finance procurement. Here, a minimum re-order level is set, and only once that mark reached, fresh stocks are ordered making this a boon to inventory management too.
- Due to the aforementioned low level of stocks held, the organizations return on investment is high.
- High quality products and greater efficiency can be derived from following a just-in-time production system.
- Close relationships are fostered along the production chain under a just-in-time manufacturing system.
- Constant communication with the customer results in high customer satisfaction.
- Overproduction is eliminated when just-in-time manufacturing is adopted.

## Disadvantages of Just in Time

Following are the disadvantages of Adopting Just-In-Time Manufacturing Systems

- Just-in-time manufacturing provides zero tolerance for mistakes, as it makes re-working very difficult in practice, as inventory is kept to a bare minimum.
- There is a high reliance on suppliers, whose performance is generally outside the purview of the manufacturer.
- Due to there being no buffers for delays, production downtime and line idling can occur which would bear a detrimental effect on finances and on the equilibrium of the production process.
- The organization would not be able to meet an unexpected increase in orders due to the fact that there are no excess finish goods.
- Transaction costs would be relatively high as frequent transactions would be made.
- Just-in-time manufacturing may have certain detrimental effects on the environment due to the frequent deliveries that would result in increased use of transportation, which in turn would consume more fossil fuels.

#### **Precautions**

Following are the things to remember when implementing a Just-In-Time Manufacturing System

- Management buy-in and support at all levels of the organization are required; if a just-intime manufacturing system is to be successfully adopted.
- Adequate resources should be allocated, so as to obtain technologically advanced software that is generally required if a just-in-time system is to be a success.
- Building a close, trusting relationship with reputed and time-tested suppliers will minimize unexpected delays in the receipt of inventory.
- Just-in-time manufacturing cannot be adopted overnight. It requires commitment in terms of time and adjustments to corporate culture would be required, as it is starkly different to traditional production processes.

- The design flow process needs to be redesigned and layouts need to be re-formatted, so as to incorporate just-in-time manufacturing.
- Lot sizes need to be minimized.
- Workstation capacity should be balanced whenever possible.
- Preventive maintenance should be carried out, so as to minimize machine breakdowns.
- Set-up times should be reduced wherever possible.
- Quality enhancement programs should be adopted, so that total quality control practices can be adopted.
- Reduction in lead times and frequent deliveries should be incorporated.
- Motion waste should be minimized, so the incorporation of conveyor belts might prove to be a good idea when implementing a just-in-time manufacturing system.

#### 20.4.2 Just in Time in Services

The Just-in-time philosophy also can be applied to the production of services. In general, service environments may benefit from JIT systems if their operations are repetitive, have reasonably high volumes, and deal with tangible items such as sandwiches, mail, checks, or bills. In other words, services must involve "manufacturing-like" operations.

Other services involving a high degree of customization, such as hair cutting, can also make use of JIT systems but to a lesser degree-basically utilizing elements of JIT systems in their operations.

The focus of JIT systems is on improving the process; therefore some of the JIT concepts useful for manufacturers are also useful for service providers. These concepts include the following:

**1.** Consistently high quality: Benchmarking, service design, and quality function deployment can be used successfully in service operations. Service employees can be taught the value of providing defect-free services.

- **2. Uniform facility loads:** Reservation systems and differential pricing are two ways in which service providers can level the loads on their facilities.
- **3. Standard work methods:** In highly repetitive service operations great efficiencies cab be gained by analyzing work methods and standardization improvements for all employees to use. For example, TCS consistently monitors work methods and revises them as necessary to improve service.
- **4. Close supplier ties:** Volume services such as fast-food restaurants and mass merchandisers such as Wal-Mart and Kmart require close supplier contacts to ensure frequent, short lead time and high-quality shipments of supplier.
- **5. Flexible work force:** The more customized the service, the greater is the need of multiskilled work force. For example, stereo component repair shops require broadly trained personnel who can identify a wide variety of problems and then repair the defective unit. The employees at a sectional center post office have more narrowly defined jobs because of the repetitive nature of the tasks they must perform, and thus they do not have to acquire many alternative skills.
- **6. Automation:** Automation can play a big role in providing just-in-time services. For example, banks offer ATMs that provide various bank services on demand 24 hours a day.
- **7. Preventive maintenance:** Services that are highly dependent on machinery can make good use of routine preventive maintenance. For example, entertainment services such as Walt Disney World must have dependable people-moving apparatus to accommodate large volumes of customers.
- **8. Pull method of material flows:** Services operations where tangible items are processed, such as fast-food restaurants, can utilize the pull method.
- **9. Product focus:** Managers of service operations can organize their employees and equipment to provide uniform flows through the system and eliminate wasted employee time.

# **20.5 CASE STUDIES**

#### Case study 1

Market penetration, market development, product development and product diversification are the different strategic decisions helping the financial organizations in marketing the services profitably and successfully.

#### **Ouestions**

- (a) Identify a bank of India where these strategies are in vague.
- (b) Suggest changes for better performance.

## Case study 2

You are the Chairman of a 50 year old Private sector Bank functioning with conservative approach. Your 200 branches are located mostly in Tamil Nadu. Your bank faced a few take-over threats in the past. The Ministry of Finance, Government of India is insisting merger of banks for viability and to face the competition from foreign banks. Automation is the order of the day. But the size of the bank does not permit huge investment on mechanization. Your product portfolio requires a change to woo new customers and to retain existing customers. The Board is expecting from you a thorough overhaul of marketing mix. How can you modify? Substantiate your approach.

#### Case study 3

Fast Express courier ltd. (FECL) is an innovative overnight delivery company that helped change the way companies do business. It was the first company to offer an overnight delivery system, but the company markets more than just a delivery service. What FECL really sells is ontime reliability. The company markets risk reduction and provide the confidence that people shipping packages will be "absolutely, positively, certain their packages will be there by 10.30 in the morning".

In fact, FECL sells even more than reliable delivery. It designs tracking and inventory management systems for many large companies. In other words, the customers buy more than just delivery service they buy a solution to their distribution problems. For example, a warehouse designed and operated by FECL is part of the distribution centre for a very large computer firm. In other organizations, customers can place an order for inventory as late as midnight, and the marketer, because of FECL's help, can guarantee delivery by the next morning. FECL has positioned itself as a company with a service that solves its customer's problems.

#### **Ouestions**

- (a) What is FECL's product? What are the tangible and intangible elements of this service product?
- (b) What are the elements of service quality for a delivery service like FECL?
- (c) In what way does technology influence FECL's service quality?

## **20.7 SUMMARY**

Globalization refers to the free movement of goods, services, people, capital and technology across various countries in the world.

Some of the reasons for globalizing services are to acquire new opportunities, to secure required resources for producing desired service, to get raw materials for their service development that are not available in their country, to achieve low cost for producing a service etc. A company can use one of the following options to formulate a strategy to enter the global market:

- 1. Contractual agreement
- 2. Joint venture
- 3. Consortium
- 4. Strategic alliance
- 5. Subsidiary

JIT is an inventory strategy, companies employ to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, thereby reducing inventory costs.

## 20.8 KEY WORDS

- 1. Globalisation
- 2. Brand
- 3. Joint Venture
- 4. Turnkey Project
- 5. Just in Time

# **20.9 SELF-ASSESSMENT QUESTIONS**

- 1. What is globalization? Explain the reasons for globalization for services.
- 2. Disscuss the Market Entry Strategy Options for services.
- 3. Write a note on branding in services.
- 4. What is Just in Time? Explain the JIT in manufacturing of goods.
- 5. Explain the JIT in services.

## **20.10 REFERENCES**

- 1. Bart van Looy, Pasul Gemmel, Roland Dierdonck. *Services Management : An Integrated Approach*, New Delhi: Prentice Hall, 2003.
- 2. Bhatia B.S., Bhatra G.S. *Management of Financial Services*, Delhhi: Deep and Deep Publications Ltd., 2008.
- 3. Rama Mohan Rao K. Services Marketing, Noida: Pearson, Second Edition, 2011
- 4. David Parket. *Operation Management*, Massachusetts USA: Edward Elgar Publishing Ltd., 2012.
- 5. Fitzsimmons B, James A., and Mona J. Fitzsimmons. *Service Management: Operations, Strategy, and Information Technology,* Bengaluru: McGraw-Hill, 2010.
- 6. Haksever C, Render B., Russel S.R and Murdick R.G. *Service Management and Operations*. New Delhi: Prentice Hall, 2007.
- 7. Heskett, J.L. "Lessons in the service sector" in The Service Management Course: Cases & Reading, Indore: Free Press, 1991.