Services Marketing
Session Number-11

Strategies for Service Marketing: Positioning and Differentiation

WHAT IS REQUIRED FOR POSITIONING SERVICES EFFECTIVELY?

In an industry with low barriers of entry and a lot of competition, Bright Horizons managed to find a niche position and differentiated itself from the competition. They linked up with employers instead of individual parents, emphasized service quality, and used accreditation as a selling point. As competition intensifies in the service sector, it is becoming ever more important for service organizations to differentiate their products in ways that are meaningful to customers. This is especially true for many mature service industries (e.g., banking, insurance, hospitality, and education) where, for a firm to grow, it has to take share from its competitors or expand into new markets. However, ask a group of managers from different service businesses how they compete, and the chances are high that many will say simply, "on service." Press them a little further, and they may add words and phrases such as "value for money," "service quality," "our people," or "convenience." None of this is very helpful to a marketing specialist trying to develop a meaningful value proposition and a viable business model for a service product that will enable it to compete profitably in the marketplace.

Likewise, **"convenience"** could refer to a **service that's delivered at a convenient location, available at convenient times, or easy to use.** Without knowing which product features are of specific interest to customers, it's hard for managers to develop an appropriate strategy. In a highly competitive environment, there's a risk that customers will perceive little real difference between competing alternatives and so make their choices based on who offers the lowest price.

Positioning strategy is concerned with creating, communicating, and maintaining distinctive differences that will be noticed and valued by those customers with whom the firm would most like to develop a long-term relationship. **Successful positioning requires managers to understand their target customers' preferences, their conception of value, and the characteristics of their competitors' offerings.** Price and product attributes are two of the 4 Ps

of marketing that are most commonly associated with positioning strategy. **For services, however, positioning often relates also to other Ps of the services marketing mix, including service processes (e.g., their convenience, ease of use), distribution systems, service schedules, locations, the service's environment, and service personnel**.

ACHIEVE COMPETITIVE ADVANTAGE THROUGH FOCUS

It's usually not realistic for a firm to try to appeal to all potential buyers in a market, because customers are varied in their needs, purchasing behavior, and consumption patterns and often too numerous and geographically widely spread. Understanding Service Products, Consumers, and Markets customers it can serve best. In marketing terms, focus means providing a relatively narrow product mix for a particular market segment—a group of buyers who share common characteristics, needs, purchasing behavior, or consumption patterns.**The extent of a company's focus can be described along two dimensions: market focus and service focus**.

Market focus is the extent to which a firm serves few or many markets, while service focus describes the extent to which a firm offers few or many services. The four focus strategies are: • **Fully focused**. A fully focused organization provides a limited range of services (perhaps just a single core product) to a narrow and specific market segment. Developing recognized expertise in a well-defined niche may provide protection against would-be competitors and allows a firm to charge premium prices. The hospital performs only a single surgery (hernia) on otherwise healthy patients (mostly men in their 40s to 60s). • **Market focused**. A market focused company concentrates on a narrow market segment, but has a wide range of services. The example of Rentokil Initial, a provider of business-to-business services. Rentokil has profited from the growing trend in outsourcing of services related to facilities maintenance, which has enabled it to develop a large range of services for its clients.•**Service focused**. Service focused firms offer a narrow range of services to a fairly broad market. However, as new segments are added, firms need to develop knowledge and skills in serving each segment. Lasik eye surgery clinics and Starbucks coffee shops follow this strategy, serving a broad customer base with a largely standardized product. • **Unfocused**. Finally, many service providers fall into the unfocused category, because they try to serve broad markets and provide a wide range of services. The danger with this strategy is that unfocused firms often are "jacks of all trades and masters of none."

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Strategies for Service Marketing: Positioning and Differentiation

• Positioning Services in Competitive Market segments offer better sales and profit opportunities than others. Marketers should select not only on the basis of their sales and profit potential, but also with reference to the firm's ability to match or exceed competing offerings directed at the same segment. Sometimes research will show that certain market segments are "underserved," meaning that their needs are not well met by existing suppliers. Such markets often are surprisingly large. For example, in many emerging-market economies, huge numbers of consumers have incomes that are too small to attract the interest of service businesses accustomed to focus on the needs of more affluent customers. Collectively, however, small wage earners represent a very big market, and they may offer even greater future potential as many of them move up toward middle-class status.

SERVICE ATTRIBUTES AND LEVELS

Once a target segment has been selected, firms need to provide their market with the right service concept. For this, formal research often is needed to identify which attributes of a given service are important to specific segments and how well prospective customers perceive competing organizations as performing against these attributes. However, you need to recognize that the same individuals may set different priorities for attributes according to:

The purpose of using the service. • Who makes the decision. • The timing of use (time of day/week/season). • Whether the customer is using the service alone or with a group, and if the latter, the composition of that group. Consider the criteria you might use when choosing a restaurant for lunch when you are (1) on vacation with friends or family, (2) meeting with a prospective business client, or (3) going for a quick meal with a coworker. Given a reasonable selection of alternatives, it's unlikely that you would choose the same type of restaurant in each instance, let alone the same one. It's possible, too, that if you left the decision to another person in the party, he or she would make a different choice. It is therefore important to be quite specific about the occasion and context a service is purchased for. **Important versus Determinant Attributes Consumers usually make their choices among alternative service offerings on the basis of perceived differences between them**. However, the attributes that distinguish

competing services from one another are not always the most important ones. For instance, many travelers rank “safety” as their number one consideration in air travel. They may avoid traveling on unknown carriers or on an airline that has a poor safety reputation, but after eliminating such alternatives from consideration, a traveler flying on major routes still is likely to have several choices of carriers perceived as equally safe. Hence, safety usually is not an attribute that influences the customer’s choice at this point. Determinant attributes (i.e., those that actually determine buyers’ choices between competing alternatives) often are way down on the list of service characteristics important to purchasers, but they are the attributes on which customers see significant differences among competing alternatives. For example, convenience of departure and arrival times, availability of frequent flyer miles and related loyalty privileges, quality of inflight service, or the ease of making reservations might be determinant characteristics for business travelers when selecting an airline. For budget-conscious vacation travelers, on the other hand, price might assume primary importance.

Establishing Service Levels Although we need to understand the difference between important and determinant attributes for our target customers, creating a positioning strategy requires more than just identifying those attributes. Decisions must be also be made on what level of performance to offer on each attribute.Some service attributes are easily quantified, while others are qualitative. Price, for instance, is a quantitative attribute. Punctuality of transport services can be expressed in terms of the percentage of trains, buses, or flights arriving within a specified number of minutes from the scheduled time. Both of these attributes are easy to understand and therefore quantifiable. However, characteristics such as the quality of personal service or a hotel’s degree of luxury are more qualitative and therefore subject to individual interpretation. To facilitate both service design and performance measurement,

Positioning Services in Competitive Markets- Each attribute needs to be operationalized and standards must be established. For instance, if customers say they value physical comfort, what does that mean for a hotel or an airline, beyond the size of the room or the seat? In a hotel context, does it refer to ambient conditions, such as absence of noise? Or to visible, tangible elements such as the bed? In practice, hotel managers need to address both ambient conditions and tangible elements.

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Strategies for Service Marketing: Positioning and Differentiation

USING POSITIONING MAPS TO PLOT COMPETITIVE STRATEGY

Positioning maps are great tools to visualize competitive positioning, to map developments over time, and to develop scenarios of potential competitor responses. Developing a positioning map—a task sometimes referred to as perceptual mapping—is a useful way of representing consumers' perceptions of alternative products graphically. A map usually is confined to two attributes for ease of understanding, although three dimensional models can be used to portray three of these attributes. When more than three dimensions are needed to describe product performance in a given market, then a series of separate charts needs to be drawn for visual presentation purposes. Information about a product (or company's position relative to any one attribute) can be inferred from market data, derived from ratings by representative consumers, or both.

CHANGING COMPETITIVE POSITIONING

Markets are constantly changing, creating both threats and opportunities among competing firms. As a result, firms sometimes have to make significant changes in an existing position. Such a strategy, known as repositioning, could mean revising service characteristics or redefining target market segments. At the firm level, repositioning may entail abandoning certain products and withdrawing completely from some market segments. Changing Perceptions through Advertising Improving negative brand perceptions may require extensive redesign of the core product and/or supplementary services. However, weaknesses are sometimes perceptual rather than real.

Service Differentiation

Where products are tangible in nature and easily differentiated on the basis of features, form, performance and quality, service differentiation is quite challenging and needs out of the box thinking. Services may be offered individually to the customer or they may be bundled with a product. For example, tours and travels are independent services offered to customers. But the service which accompanies the Volkswagen car you bought, is dependent on the product – Volkswagen.

Nonetheless, there are some common service characteristics which makes each service unique. Service differentiation can be achieved on the basis of these characteristics. There are different ways to differentiate your services from competition.1) Ordering ease- This is a differentiator on which many internet businesses are based nowadays. Have you noticed an increase in overall purchases because of the penetration of E-commerce? People used to do window shopping when they had time.Now they just have to browse their smartphones whenever they are free. No doubt, this has resulted in more impulse purchases then the history of mankind. 2) Delivery - Delivery is a major marketing tactic to differentiate your services. Just look at the popularity of Pizza Hut or Dominos and the only reason these 2 brands are popular because of their claim of "30 minutes delivery or free". On the other hand look at services like Laundromat. They don't give you clean clothes with delivery, they ask you to come to the store and get your clothes cleaned.Both are examples which are convenient and more importantly cost effective to the customer. In terms of E-commerce, look at Amazon Prime. Where normal E-commerce companies commit 4-6 days delivery, Amazon prime commits the delivery in 24 to 48 hours max. 3)Installation-Companies which sell Air conditioners or technical equipment like Cold rooms, Ducting equipment etc, have to differentiate themselves through their services. Are you likely to install a cold room when you know that the brand provides poor service?4) Customer training -Customer training is necessary and an important aspect of differentiating your services. When you are selling products which are new in the market, you have to impart proper customer training so that the customer does not misuse the product. 5) Customer consulting-Firms like IBM and Accenture have made big bucks through their consultation offers. Customer consulting includes numerous infrastructure or operation related consulting which can be offered in the form of data management, information systems and service advisory.Snapdeal recently introduced Account managers who will help you expand your online business. Similarly, FMCG companies via their product managers consult their distributors and help them increase their businesses by installing software and infrastructure which directly notifies the company when the dealer does not have stock or about the stocks that he needs.6) Maintenance and repair-Repair services need to differentiate themselves with the response time. Many tech products like your Ipod and Printer have online knowledge bases which users can refer to, so as to solve their problems immediately. 7) Returns- Returns are a major hurdle to E-commerce sales as well as retail sales.

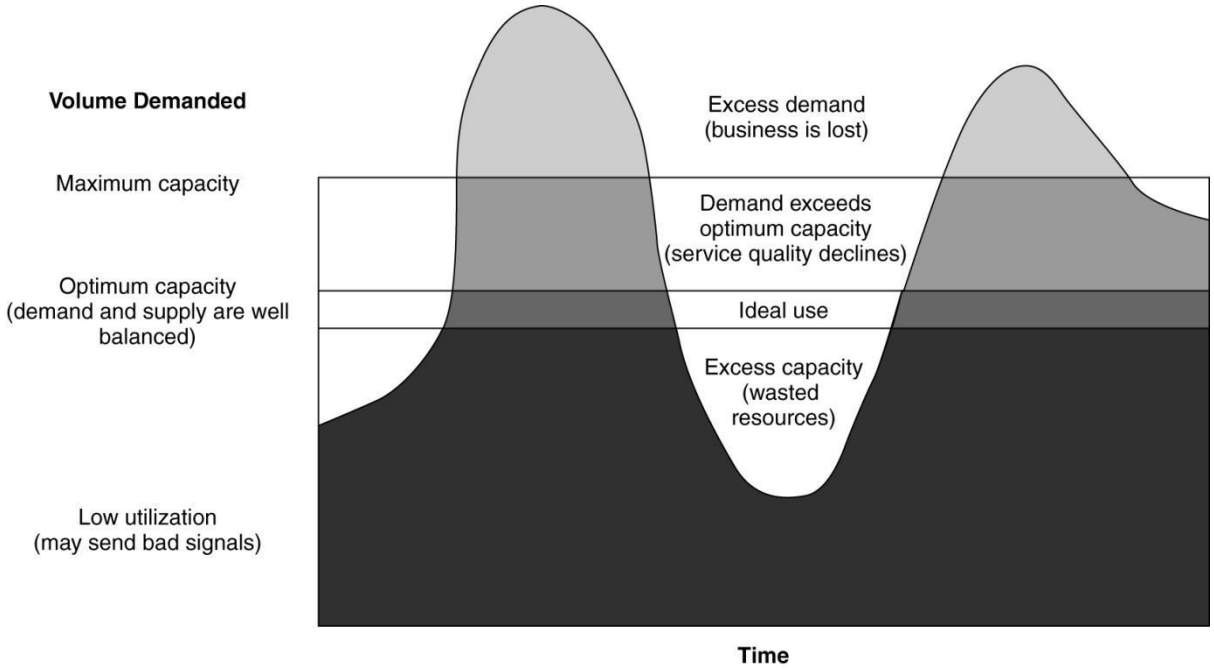
Session Number-14

Demand and Capacity - Introduction

The largely perishable and intangible nature of services makes it impossible for service companies to store them in order to use them during peak demand periods.

The lack of inventory capability is due to the perishability of services and their simultaneous production and consumption. Along with this lack of inventory capability, the fluctuating demand is a major challenge for many types of capacity-constrained service

Organizations, including airlines, restaurants, vacation resorts, courier services, consulting firms, theatres, and call centres etc. The variation of demand relative to capacity is shown in figure 1.1 below.



The horizontal line indicates service capacity which is fixed in many industries over a certain time period and the curved line indicates customer demand showing its fluctuating nature.

The topmost horizontal line shows the maximum capacity; say 50000 seats in a cricket stadium. The number of seats remains constant but demand for them fluctuates. The band between the second and third horizontal line shows optimal capacity – the best use of stadium capacity from the perspective of both the customers and the stadium authority. There plot in the figure shows four different scenarios resulting from different combinations of Demand and Capacity:

1. **Excess Demand**
    a. Some customers will be turned away, resulting in lost business opportunities.
    b. For customers who do receive service, quality may be lacking because of crowding or overtaxing of staff and facilities.
2. **Demand exceeds optimum capacity**No one is turned away, but quality may still suffer because of overuse, crowding, or staff being pushed beyond their abilities to deliver consistent quality.
3. **Demand and supply are balanced at the level of optimal capacity**
    a. Staff and facilities are occupied at ideal level.
    b. No one is overworked, facilities can be maintained and customers are receiving quality service without undesirable delays.
4. **Excess capacity**
    a. Resources are underutilized resulting in lower profits.
    b. Some customers may receive high quality service, but if quality depends on the presence of other customers, customers may be disappointed or worry that they have chosen an inferior service provider.

Not all firms would be challenged equally in terms of managing supply and demand. The seriousness of problem will depend on the extent of demand fluctuations over time and the extent to which supply is constrained. refers below.

Extent to Which Supply Is Constrained	Extent of Demand Fluctuations over Time: Wide	Extent of Demand Fluctuations over Time: Narrow
Peak demand can usually be met without a major delay.	1 Electricity Natural gas Police and fire emergencies Internet services	2 Insurance Legal services Banking Laundry and dry cleaning Hair salon
Peak demand regularly exceeds capacity.	4 Accounting and tax preparation Passenger transportation Hotels Restaurants Hospital emergency rooms	3 Services similar to those in cell 2 that have insufficient capacity for their base level of business

CAPACITY CONSTRAINTS - Organizations should understand the basics of how and why demand for a service fluctuates in order to design strategies to manage demand. For many firms, service capacity is fixed as shown below, with four critical fixed capacity factors of time, labor, equipment, and facilities or a combination of these.

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Demand and Capacity

Optimal versus Maximum use of Capacity Using capacity at an optimal level means that resources are fully utilised but not overused and that customer are receiving quality services in a timely manner. Maximum capacity represents the absolute limit of service availability. In case of a stadium optimal and maximum capacity may be the same. However in a restaurant, maximum use of capacity may result in excessive waiting by customers for their orders.

DEMAND PATTERNS: To manage fluctuating demand, it is important to have a clear idea of demand patterns, why they vary and the market segments that constituted demand at different points in time.**Charting of demand patterns**. To understand demand patterns, organizations need to track it over relevant time periods which can be hourly, daily, weekly, monthly or seasonally; accurately or even informally. **Predictable cycles:** Detect random demand fluctuations and identify its reasons which can be one or more. Restaurant industry, in business districts as well as seasonal tourist locations, demand can vary by the hour, day, month etc. Similarly, for banking services, the demand can vary hourly. **Random demand fluctuations.** Sometimes the demand pattern appear to be random but even in this case, identify the causes which may be weather, holidays etc related. For example, day to day changes in the weather may affect the use of recreational, shopping or entertainment facilities. **Demand patterns by market segment-**Random fluctuations usually are caused by factors beyond management's control.With the help of analysis of customer transactions, identify demand trend for a segment or even sub segment. For example, bank visits by its business customers may occur daily at a predictable time whereas personal account holders may visit bank randomly.

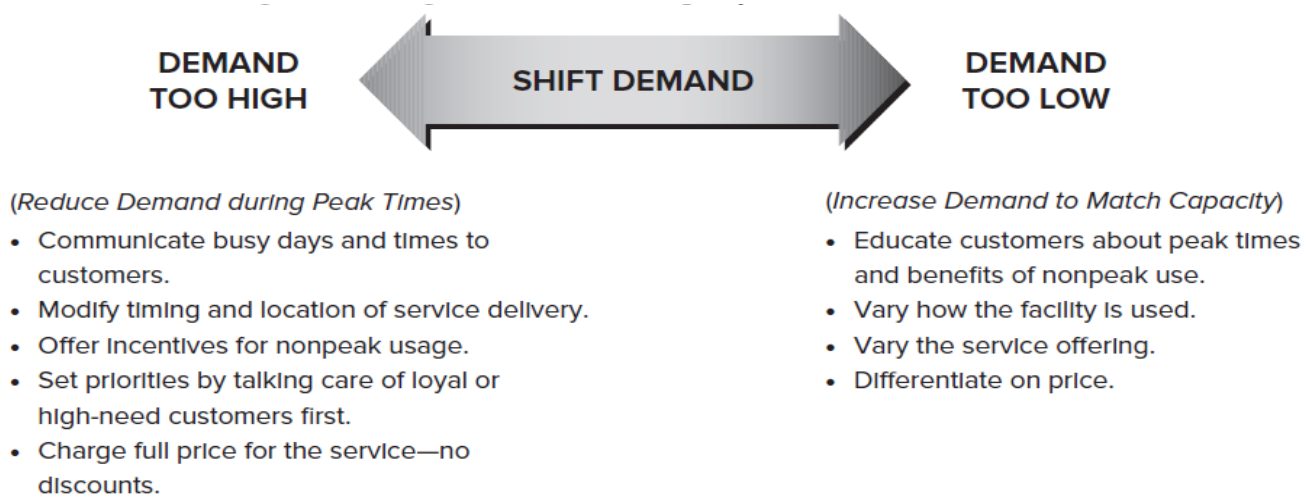
STRATEGIES FOR MATCHING CAPACITY AND DEMAND

To develop strategy for matching supply and demand,two general approaches are used. First is to smooth the demand fluctuations themselves by shifting demand to match existing capacity by flattening peaks and valleys of demand curve. The second strategy is toadjust capacity to to match fluctuations in demand.

Shifting Demand to Match Capacity

With this strategy an organizationseeks to shift customers away fromperiods in which demand exceeds capacity by convincing them to use the service during period of low demand. This change may be possible foe some customers but not for all. For example, business travellers are not able to shift their flights, hotel or car rental but pleasure travellers often shift their timing of trips. Strategies for shifting demand to match capacity .**Reducing Demand during Peak Hours**In this strategic approach, the provider focuses on reducing demand during peak hours of demand.**Increase Demand to Match Capacity**

Service provider to consider increasing demand during times when service is operating at less than full capacity



Strategies for Adjusting Capacity to Match Demand

Another approach to match supply and demand focuses on adjusting capacity rather than shifting demand.**Increase Capacity Temporarily-**Existing capacity can often be expanded temporarily to accommodate demand. In such cases, no new resources are added; people, facilities and equipment are asked to work harder and longer to meet demand .**Adjust use of Resources**

By adjusting resources creatively, organizations can chase demand curve to match capacity with demand patterns.

Combining Demand and Capacity Strategies

Many firms use multiple strategies, combining market driven demand management approaches with operations driven capacity management techniques. Examples of such services are theme parks with rides, restaurants and shopping. Firms face complex problems in trying to balance demand across all different offerings and also to ensure quality and profitability.

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Demand and Capacity - Yield Management

Yield management (also revenue management) attempts to allocate the fixed capacity of a service provider to match the potential demand in various market segments so as to maximize revenue or yield. This strategy is used by Airlines, shipping, car rental and other capacity constrained industries in which bookings are made well in advance.

$$\text{Yield} = \frac{\text{Actual revenue}}{\text{Potential revenue}}$$

Where: Actual revenue = actual capacity x average actual price

Potential revenue = total capacity x maximum price

Most effective when:

- different segments make reservations at different times and
- customers who arrive/reserve early are more price sensitive than those who arrive/reserve late.

Yield Management Example

- We need to find out Yield for a 200-room Hotel
- Maximum room rate = $200/night
- Potential Revenue = $200 x 200 = $40,000

Scenarios

1. Assume all rooms sold at discounted rate ($100/night)
- Yield = $100 x 200/$40,000 = $20,000= **50%**
2. Full rate charged, but only 80 rooms sold
- Yield = $200 x 80/$40,000 = $16,000 = **40%**
3. Full rate charged for 80 rooms, discount for remaining 120 rooms

- Yield = [($200 x 80) + ($100 x 120)]/$40,000 = $28,000 = **70%**
- The last alternative which takes into account price sensitivity and so charges different prices for different rooms or market segments, results in the highest yield among these 3 alternatives.

Challenges and Risks in Using Yield Management

Loss of competitive focus,Customer alienation,Overbooking,Incompatible incentive and reward system, Inappropriate organization of the yield management function

WAITING LINE STRATEGIES: WHEN DEMAND AND CAPACITY CAN NOT BE MATCHED

Sometimes it is not possible to manage capacity to precisely match demand or vice versa due to factors of

- Cost – Unable to increase number of physicians to handle peak demand in flu season.
- Demand may be very unpredictable and service capacity very inflexible
- Backing up demand when time required to service some customers becomes very high

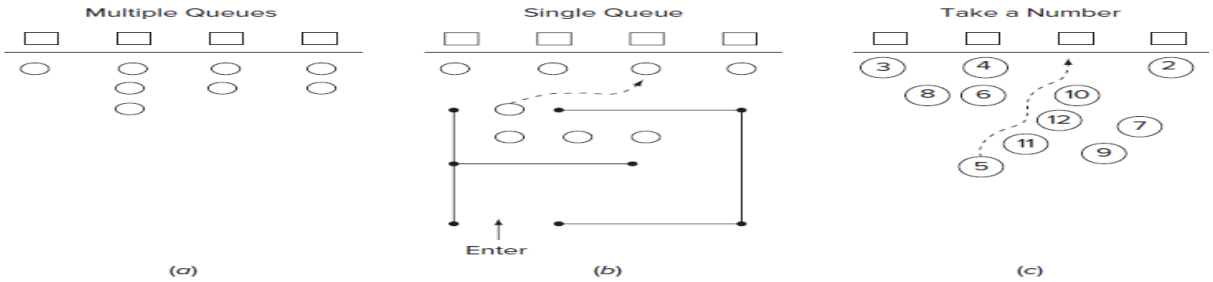
This misalignment in capacity and demand can get serious in emergency health care

Waiting can occur on phone or in person. In today's world, as people work harder, they have lesser leisure time and most do not tolerate waiting well. Organizations that make people wait may lose business or at the very least create dissatisfied customers. To deal with inevitability of waits, organizations use 4 general strategies.**Employ operational logic to reduce wait**

How to configure the queue?Multiple Queue,Single Queue,Take a Number

<u>Waiting Line Configurations</u>

Queue configuration refers to the number of queues, their locations, their spatial requirement and their effect on customer satisfaction.



1. **Establish a Reservation Process**When waiting can not be avoided, a reservation system can be used to spread the demand. It guarantees service availability when the customer

arrives. Beyond reducing waiting time, it also to less desirable time periods. Challenge to this process is “What to do with a No Show customer”.

2. **Differentiate Waiting Customers**On the basis of need or customer priority, some organizations differentiate among customers. Most popular is first come, first served but other rules may also apply. Differentiation can be based on Customer importance, urgency of job, duration of service transaction and payment of a premium price.
3. **Make Waiting more pleasurable**Even when customers have to wait, the actual length of wait would impact their service experience. However certain principles of wait should be considered which are as below.

Session Number-17

Service Development

Introduction

Because of the nature of Services – specifically intangibility, variability and co creation, the design and development of service offerings are complex and challenging.Badly designed processes are likely to annoy customers because they oftenresult in slow, frustrating, and poor-quality service delivery. Similarly, poor processesmake it difficult for frontline employees to do their jobs well, result in low productivity and increase the risk of service failures. When action does not happen based on customer’s expectations, a gap is createdieService design and Standards gap or Gap 2. We had also seen that reasons for Gap 2 were:-

1. Poor Service design
2. Absence of customer driven standards
3. Inappropriate physical evidence and servicescape.

Challenges of Service Innovation and Design Incompleteness in using words to describe services and people tend to omit details of services of which they are less familiar.Subjectivity due to different persons interpreting in different ways. Biased interpretation by employees as well as customers.

Important Considerations for Service Innovation

- Involve customers and employees – Because services are produced, consumed and co created in real time and often involves between employees and customers, so both need to be involved in innovation and new service development process.
- Employ service design thinking and techniques – As services often occur as a sequence of inter related steps and activities involving people, processes and tangibles with focus on customers, a set of 5 principles have been proposed as central to service design thinking:-

The five principles of service design thinking:

- User-centered: Services should be experienced and designed through the customers eyes
- Cocreative: All stakeholders should be included in the service design process
- Sequencing: A service should be visualized as a sequence of interrelated actions
- Evidencing: Intangible services should be visualized in terms of physical artifacts
- Holistic: The entire environment of a service should be considered
- **Types of Service Innovation**

- Major or radical innovations – are new services for markets as yet undefined. Ex-First TV broadcast services, remote repair services.Start-up businesses – are new services for a market already served by existing product that meets the need.
- New services for the currently served market – are attempts to offer existing customers a service not offered by company earlier. Uber offer eats, health club offer of nutrition classes.Service line extensions – augmentation of existing service line. Ex-Haldiram offering Chinese menu, Airlines offer new routes, a University offer new courses
- Style changes – Most modest innovation but highly visible and can have significant effect on customer perception eg change in logo/ color scheme, redesign of a website.

Service Innovation and Development Process

The Structure of Service Production

- **Interactive Part-** customer contact withcontact personnel,systems,physical components

– ---------- **OF VISIBILITY** ----------

– **Support-**Management Support,SupportFunctions,Technological/Knowledge Support. **<u>Service Blueprinting-</u>**A Service Blueprint is a picture or a map that portrays the customer experience and the service system, so that different people involved in providing service have a common view and understanding of service offering.

- The process of service delivery,
- The points of customer contact,
- The Roles of customers and employees
- And the visible evidence of service from customer's point of view.

Session Number-18

<u>Service Development</u>

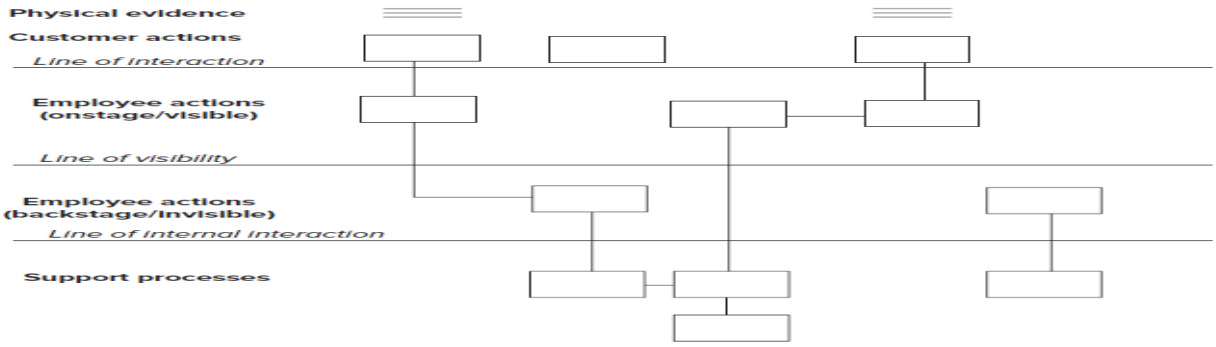
Designing and Documenting Service Processes – Blueprinting

Blueprint Components

The key components are shown in figure 8.3 below.

Symbols Used In Blueprinting

- Rectangles - process symbol
- Flow of lines - how often
- Boxes with fans - a range of potential actions which can occur
- Circles with fans - a range of potential events that may occur
- Line of Visibility - onstage from backstage



Service Blueprint format

The key components of service blueprint also called key action areas are:-

- Customer actions
- Onstage/ visible contact employees actions
- Backstage/ invisible contact employees actions
- Support processes

The conventions of drawing service blueprints are not rigidly followed and thus the number of symbols, horizontal lines in the blueprint, labels etc may vary depending on the complexity of blueprint.

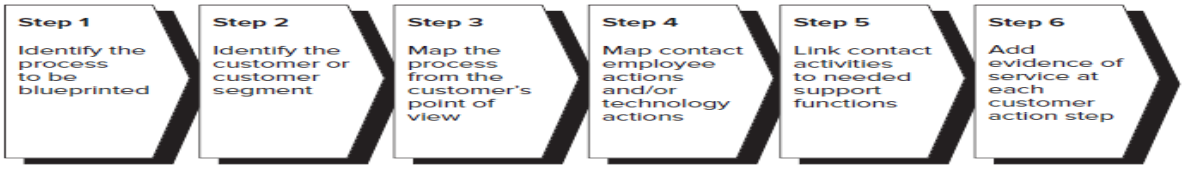
The four key action areas are separated by 3 horizontal lines, which are

Line of interaction - represents direct interaction between customer and service organization.Line of Visibility – this line separates all service activities visible to customer from those not visible. Line of internal interaction –separates customer contact employee activities from those of other service support activities and people. The boxes within each action area depict steps performed or experienced by actors at that level. Service standards and targets should be established for each activity to reflect customer expectations

Benefits of Service Blueprinting

- Provides a platform for innovation, Recognizes roles and interdependencies among functions, people, and organizations, Facilitates both strategic and tactical innovations.
- Transfers and stores innovation and service knowledge, Designs moments of truth from the customer's point of view, Suggests critical points for measurement and feedback in the service process, Clarifies competitive positioning, Provides understanding of the ideal customer experience, Potential fail points are instances where there is a risk of things going wrong, resulting in diminished service quality are identified, Identifies customer waits

Steps in Building a Service Blueprint Building a service blueprint needs involvement of a number of functional reps as well as information from customers. Basic steps in building a blueprint are outlined below



Service blueprint building process

Step 1: Identify the Service process to be blueprinted.

Step 2: Identify the customer or customer segment experiencing the service

Step3: Map the service process from the customer's point of view

Step 4: Map contact employee action and / or technology

Step 5: Link contact activities to needed support functions

Step 6: Add evidence of service at each customer action step

Session Number-19

Service Development Customer-Defined Service Standards

Introduction

Standardization of Services usually imply a non varying sequential process whereas customization means adaptation of process to an individual customer's requirement. Some may feel that services are too intangible to be measured leading to loose standards. However, as many service tasks are routine, specific rules and standards can be fairly easily set eg opening a bank account etc.

Standardization of service can take three forms

1. Substitution of technology for personal contact and human effort.
2. Improvement in work method
3. Combination of both these 2 methods

Standardization, by use of technology or work method improvement reduces Gap 2. Customer defined standardization ensures that most critical elements of service are performed as expected by customers. However to close Gap 2, a company must set customer defined standards; operational standards based on pivotal customer requirements, identified by market research.

Types of Customerdefined ServiceStandards1. Hard - things that can be counted, timed, or observed through audits. Reliability is mostly the most important concern of Service customers.

FedEx Service Quality Indicator – SQI

Indicator	Weight
Lost packages	50
Damaged packages	30
Failed (call-in) pickup	20
Wrong day/late delivery	15
Failed (regularly scheduled) pickup	10
Missing packages	10
Right day/late delivery	5

Examples of hard Customer defined Standards

company	Customer Priorities	Customer defined Standards
Federal Express	On-time delivery	Number of packages right day late Number of packages wrong day late Number of missed pickups
Dell Computer	On-time delivery Computer works properly	Ship to target Initial field incident rate Missing, wrong, and damaged rate
	Problems fixed right first time	Service delivery on time first time fix
Social Security Administration	Telephone access	95 percent of calls served within five minutes (see Technology Spotlight)
Southwest Airlines	Reliability Responsiveness to complaints	On-time arrival Two-week reply to letters
Lenscrafters (optical retailer)	Quick turnaround on eyeglasses	Glasses ready in one hour
Fotomat (photograph-developing retailer)	Quick developing of photographs	Photographs developed within one hour
Aetna/U.S. Healthcare	Fast response to calls and problems	Calls answered within 20 seconds Same-day complaint resolution Two-hour response time for requests
	Regular contact with customers	Proactive service calls three times per year
Honeywell Home and	Fast delivery	Orders entered same day received

Soft Customer defined Standards

Not all customer priorities can be counted, timed, or observed through audits. These can be documented using perceptual data and are called Customer defined soft standards and measures because they are opinion based measures and can not be directly observed. They must be collected by talking to customers, employees or others. Soft standards provide direction, guidance and feedback to employees in ways to achieve customers satisfaction.

Soft standards are especially important for person to person interactions such as in selling process and delivery of professional services.

Many firms have both hard and soft customer defined standards.

examples of Soft customer defined standards

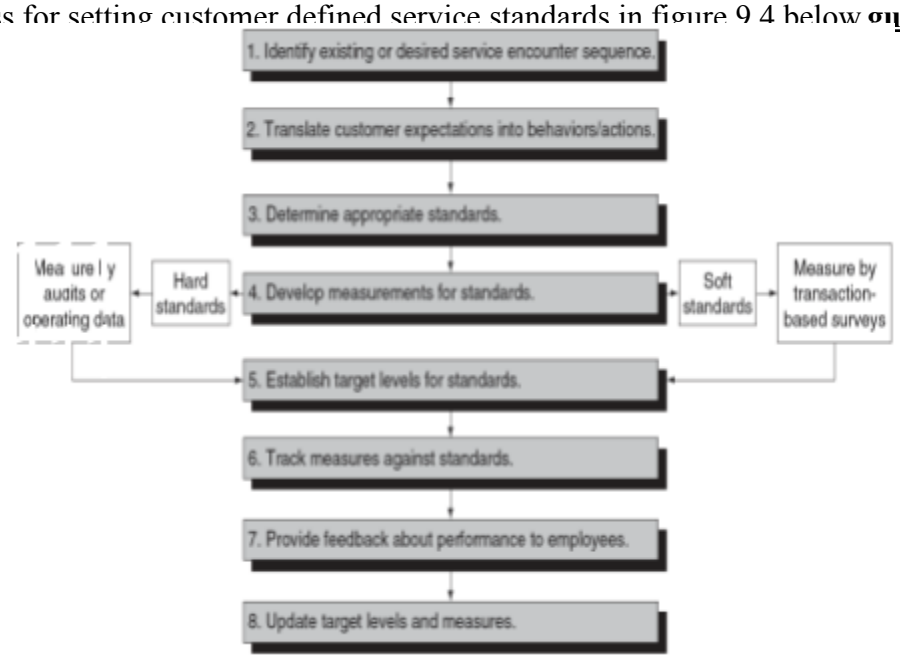
Company	Customer Priorities	Customer-Defined Standards
General Electric	Interpersonal skills of operators:	• Take ownership of the call • Follow through with promises made • Be courteous and knowledgeable • Understand the customer's question or request
Ritz-Carlton	Being treated with respect	• React quickly to solve any problems immediately • Use proper telephone etiquette • Do not screen calls • Eliminate call transfers when possible
Nationwide Insurance	Responsiveness	• Provide a human voice on the line when customers report problems
L.L.Bean	Calming human voice; minimal customer anxiety	• Use appropriate tone of voice • Do not engage in other tasks (e.g., arranging gift boxes) while on the telephone with customers
Peninsula Regional Medical Center	Respect	• Keep patient information confidential • Never discuss patients and their care in public areas • Listen to patients with empathy • Be courteous and do not use jargon • Keep noise to a minimum • Never "talk over" a patient
American Express	Resolution of problems	• Resolve problem at first contact (no transfers, other calls, or multiple contacts) • Communicate and give adequate instructions • Take all the time necessary
	Treatment	• Listen • Do everything possible to help • Be appropriately reassuring (open and honest)
	Courtesy of representative	• Put card member at ease • Be patient in explaining billing process • Display sincere interest in helping card member • Listen attentively • Address card member by name • Thank card member at end of call

Process for Setting Customer-Defined Standards

Creating customer defined service standards are not a common practice in many firms. Doing so requiresthat companies Marketing and Operations departments work together by using customers research as input for operations. On the basis of Marketing's input of quick delivery, Dominos Operations team worked hard to ensure at least 99% of deliveries are made within the promised thirty minutes.

The general process for setting customer defined service standards in figure 9.4 below **gure 9.4**

Process for settir



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Setting Prices

Service organizations even use different terms to describe the prices they set. Universities talk about tuition, professional firms collect fees, banks impose interest and service charges, brokers charge commissions, some expressways impose tolls, utilities set tariffs, and insurance companies determine premiums—the list goes on. Consumers often find service pricing difficult to understand (insurance products or hospital bills), risky (when you make a hotel reservation on three different days, you may be offered three different prices), and sometimes even unethical (many bank customers complain about an array of fees and charges they perceive as unfair.to decide on booking a vacation, reserving a rental car, or opening a new bank account? In many service industries of the past, pricing was traditionally driven by a financial and accounting perspective, which often used cost-plus pricing. Price schedules often were tightly constrained by government regulatory agencies—and some still are. Today, however, most service businesses enjoy significant freedom in setting prices and have a good understanding of value-based and competitive pricing. These developments have led to creative pricing schedules and sophisticated revenue management systems Objectives for Establishing Prices Any pricing strategy must be based on a clear understanding of a company's pricing objectives. The most common pricing objectives are related to revenues and profits as well as building demand and developing a user base

GENERATING REVENUES AND PROFITS-Within certain limits, profit-seeking firms aim to maximize long-term revenue, contributions, and profits. Perhaps top management is eager to reach a particular financial target or seeks a specific percentage return on investment. Revenue targets may be broken down by division, geographic unit, type of service, and even by key customer segments. This practice requires prices to be set based on a good knowledge of costing, competition, and price elasticity of market segments and their value perceptions.In capacity-constrained organizations, financial success often is a function of ensuring optimal use of productive capacity at any given time. Hotels, for instance, seek to fill their rooms because an empty room is an unproductive asset. Similarly, professional firms want to keep their staff members occupied. Thus, when demand is low, such organizations may offer special discounts to attract additional business. Conversely, when demand exceeds capacity, these types of businesses may increase their prices and focus on segments willing to pay a high price premium.

BUILDING DEMAND AND DEVELOPING A USER BASE. -In some instances, maximizing patronage, subject to achieving a certain minimum level of profits, may be more important than profit maximization. Getting a full house in a theater, sports stadium, or race track usually creates excitement that enhances the customer's experience. It also creates an image of success that attracts new patrons. New services, in particular, often have trouble attracting customers.

PRICING STRATEGY STANDS ON THREE FOUNDATIONS- Once the pricing objectives are understood, we can focus on the pricing strategy. The foundations underlying pricing strategy can be described as a tripod, with costs to the provider, competitors' pricing, and value to the customer as the three legs. In many service industries, pricing used to be viewed from a financial and accounting standpoint; therefore, **cost-plus pricing often was used. Today however, most services have a good understanding of value-based and competitive pricing.** In the **pricing tripod**, the costs a firm needs to recover usually sets a minimum price, or floor, for a specific service offering, and the customer's perceived value of the offering sets a maximum, or ceiling. The price charged by competing services typically determines where, within the floor-to-ceiling range, the price can be set. The pricing objectives of the organization then determine where actual prices should be set given the feasible range provided by the pricing tripod analysis. Let's look at each leg of the pricing tripod in more detail, starting with cost to the provider. Cost-Based Pricing Pricing typically is more complex in services than in manufacturing.

Service businesses with high fixed costs include those with expensive physical facilities (such as hospitals or colleges), or a fleet of vehicles (such as airlines or trucking companies), or a network (such as railroads or telecommunications and gas pipeline companies).

REDUCING RELATED MONETARY AND NONMONETARY COSTS. When we consider customer net value, we need to understand the customers' perceived costs. From a customer's point of view, the price charged by a supplier is only part of the costs involved in buying and using a service. There are other costs of service, which are made up of the related **monetary and nonmonetary costs. Related Monetary Costs.** Customers often incur significant financial costs in searching for, purchasing, and using the service, above and beyond the purchase price paid to the supplier. For instance, the cost of an evening at the theater for a couple with young children

usually far exceeds the price of the two tickets, because it can include such expenses as hiring a babysitter, travel, parking.