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Higher Education for All

SERVICE MARKETING

COURSE CODE: SGB24BB501ME

Bachelor of Business Administration (Honours)
Major Discipline Specific Elective
Self Learning Material



SREENARAYANAGURU
OPEN UNIVERSITY

SREENARAYANAGURU OPEN UNIVERSITY

The State University for Education, Training and Research in Blended Format, Kerala

Vision

To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

To be benchmarked as a model for conservation and dissemination of knowledge and skill on blended and virtual mode in education, training and research for normal, continuing, and adult learners.

Pathway

Access and Quality define Equity.

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Semester - V

Four Year Undergraduate Programme

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Academic Committee

Dr. Johney Johnson
Dr. Fezeena Khadir
Dr Vijayan K.
Dr. K.G. Satheesh Kumar
Dr. Shanimon S.
Dr. Roshna Varghese
Dr. Nithya U.S.
Dr. Meera Prathapan
Dr Manu M.S.

Development of the Content

Dr. Sanitha K.K.
Amar Shariar

Review and Edit

Dr. Rasheed K.

Proof

Hamid Suhail V.

Scrutiny

Dr. Viji Vijayan
Ashish John Ashok
Amar Shariar
Dr. Surya Robert
Mohammed Aslam A.

Cover Design

Jobin J.

Co-ordination

Director, MDDC :
Dr. I.G. Shibi
Asst. Director, MDDC :
Dr. Sajeevkumar G.
Coordinator, Development:
Dr. Anfal M.
Coordinator, Distribution:
Dr. Sanitha K.K.

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MESSAGE FROM VICE CHANCELLOR

Dear Learner,

It is with great pleasure that I welcome you to the Four Year UG Programme in Business Administration offered by Sreenarayanaguru Open University.

Established in September 2020, our university aims to provide high-quality higher education through open and distance learning. Our guiding principle, 'access and quality define equity', shapes our approach to education. We are committed to maintaining the highest standards in our academic offerings.

Our university proudly bears the name of Sreenarayanaguru, a prominent Renaissance thinker of modern India. His philosophy of social reform and educational empowerment serves as a constant reminder of our dedication to excellence in all our academic pursuits.

The Four Year UG Programme in Business Administration covers all relevant areas aligned with management theory and organisational practices. We have incorporated the latest trends in business studies to ensure a comprehensive and up-to-date curriculum. Moreover, the programme encompasses flexible options for learners to choose from a range of Ability Enhancement Courses, Multi-disciplinary Courses, Value Added Courses, and Skill Enhancement Courses, complemented by discipline-oriented Advanced and Additional Advanced Courses.

Our teaching methodology combines three key elements: Self Learning Material, Classroom Counselling, and Virtual modes. This blended approach aims to provide a rich and engaging learning experience, overcoming the limitations often associated with distance education. We are confident that this programme will enhance your understanding of business studies, preparing you for various career paths and further academic pursuits.

Our learner support services are always available to address any concerns you may have during your time with us. We encourage you to reach out with any questions or feedback regarding the programme.

We wish you success in your academic journey with Sreenarayanaguru Open University.

Best regards,



Dr. Jagathy Raj V.P.
Vice Chancellor

01-09-2026

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BLOCK - 01



Marketing Services

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Unit - 1
Fundamentals of Services and Service Marketing

Learning Outcomes

After studying this section, learners will be able to:

- ◊ explain the concept, characteristics, and nature of services and service marketing
- ◊ distinguish between goods and services, and classify different types of services
- ◊ analyse the factors responsible for the growth of the service sector and its contribution to the Indian economy

Prerequisite

Riya's day began with a mobile recharge and a cab ride to college. During the day, she used mobile banking to transfer money, attended an online lecture and booked a flight ticket. In the evening, she streamed a movie on an OTT platform.

Looking back at her day, Riya wondered, "What did I actually buy?"

She had paid for mobile connectivity, transportation, banking, education, travel and entertainment but none of these involved taking home a physical product. Instead, she received access, expertise, convenience, knowledge, care, or an experience.

This simple observation highlights the basic nature of services. Unlike physical goods, which can generally be owned and stored, services create value through activities, processes, interactions, performances, or experiences. Their quality is often judged not only by the outcome but also by how the service is delivered.

Services are an integral part of sectors such as banking, healthcare, education, transportation, hospitality, communication and entertainment. Therefore, organisations need to understand customer expectations, design effective service processes, maintain service quality and create positive customer experiences.

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Keywords

Services, Service Marketing, Intangibility, Service Sector, Customer Experience

Discussion

Introduction

Businesses no longer compete solely by producing superior goods. Today, airlines, hospitals, hotels, banks, educational institutions, telecommunication companies, consulting firms, and digital platforms compete primarily through the quality of their services. The discipline that studies how organisations create, deliver, and manage these services is known as Service Marketing. Before understanding service marketing, it is necessary to understand what a service is.

1.1.2 What are Services?

Suppose a customer purchases a laptop. The laptop is a good. When the customer purchases an extended warranty, software installation, and technical support, these are services. Today, many companies generate more revenue from after-sales services than from selling the physical product itself. For example, Apple earns significant customer loyalty through services such as AppleCare, technical support, and cloud services.

Services are economic activities that create value for customers by providing benefits, experiences, or solutions without transferring ownership of a physical product. Unlike a manufactured product, a service is generally intangible and is consumed as it is produced.

For example:

1. A doctor provides medical consultation.
2. A teacher provides education.
3. A lawyer provides legal advice.
4. A bank provides financial services.
5. An airline provides transportation.

In each case, customers receive benefits rather than ownership of a tangible object.

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1.1.3 Definitions of Service

According to Philip Kotler and Kevin Lane Keller, Marketing Management:

"A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything."

According to Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, Services Marketing:

Services are deeds, processes, and performances.

According to Christopher Lovelock and Jochen Wirtz, in Services Marketing: People, Technology, Strategy:

"Services are economic activities offered by one party to another, most commonly employing time-based performances to bring about desired results."

These definitions emphasise that services provide value through actions and experiences rather than physical goods.

1.1.4 Characteristics of Services

Services possess certain unique characteristics that distinguish them from physical goods. These characteristics influence how services are produced, delivered, marketed, and consumed. According to Philip Kotler and Kevin Lane Keller (2022) and Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler (2023), the five fundamental characteristics of services are intangibility, inseparability, variability (heterogeneity), perishability, and lack of ownership.

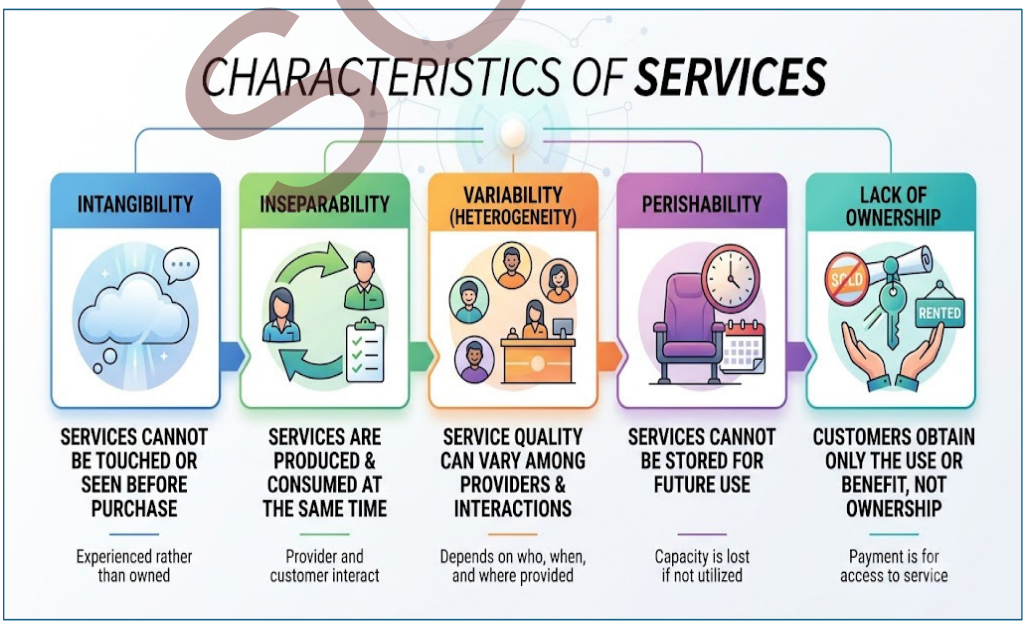


Fig: 1.1.1 Characteristics of Services

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1. Intangibility

Anu decides to join a coaching institute for competitive examinations. Before enrolling, she cannot physically examine the quality of teaching. Instead, she relies on the institute's success rate, faculty qualifications, and student reviews. This illustrates the intangibility feature of a service.

Intangibility means that a service cannot be seen, touched, tasted, heard, or felt before it is purchased. Since services are experiences or performances rather than physical objects, customers often rely on the reputation of the service provider, reviews, or recommendations before making a purchase. Examples include education, legal advice, medical consultation, banking, insurance, and tourism services.

2. Inseparability

When a patient consults a doctor, the medical service is produced and consumed simultaneously during the consultation. The doctor and the patient must interact for the service to be effectively delivered. Here, the performance of the service is inseparable from the service provider. Inseparability means that the production and consumption of a service occur simultaneously, and the service provider and the customer are often present together during service delivery. The quality of the service depends on the interaction between the provider and the customer.

Examples include hairdressing, classroom teaching, medical treatment, restaurant services, and live concerts.

3. Variability (Heterogeneity)

A customer may receive excellent service from a hotel receptionist during one visit but experience slower or less friendly service during another visit because a different employee is on duty. The same service delivered by different employees may vary in quality, consistency, and customer experience. This is called variability in service delivery.

Variability, also known as heterogeneity, means that the quality of a service may vary depending on who provides it, when it is provided, and where it is delivered. Since human involvement plays a significant role in service delivery, it is difficult to ensure complete uniformity in every service encounter.

Examples include hotel services, restaurant services, healthcare, customer support, and educational services.

4. Perishability

Suppose an airline has 20 empty seats on a flight departing today. Once the aircraft takes off, those unsold seats cannot be stored or sold later, resulting in lost revenue for the airline. This illustrates why a service is called perishable. Perishability means that services cannot be stored, saved, or inventoried for future use. If a service is not used at the time it is available, the opportunity to sell that service is permanently lost.

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Examples: Hotel rooms, airline seats, cinema tickets, hospital appointments, and event tickets.

5. Lack of Ownership (Non-Ownership)

When Priya books a hotel room for two nights, she has the right to use the room during her stay. However, she does not become the owner of the hotel room after checking out, as a service does not guarantee ownership. Lack of ownership means that customers receive only the right to use or benefit from a service for a specified period, but they do not become the owners of the service itself. After the service has been consumed, nothing tangible remains with the customer except the experience or benefit received.

Examples: Hotel accommodation, airline travel, car rental, movie streaming subscriptions, and public transportation.

1.1.5 Goods versus Services

Table: 1.1.1 Goods Vs. Services

Basis	Goods	Services
Nature	Tangible	Intangible
Ownership	Ownership transferred	No ownership transferred
Storage	Can be stored	Cannot normally be stored
Production	Produced before consumption	Produced and consumed simultaneously
Example	Mobile phone	Mobile network service

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Case Study

India's Digital Payment Revolution: Unified Payments Interface (UPI)

One of the best examples of service innovation is India's Unified Payments Interface (UPI), developed by the National Payments Corporation of India. UPI enables customers to transfer money instantly through smartphones without visiting banks. Applications such as Google Pay, PhonePe, and Paytm have transformed banking services by making financial transactions fast, convenient, and secure.

The success of UPI illustrates that customers often value speed, convenience, and reliability more than physical products. This case also demonstrates how technological innovation has reshaped service delivery in India.

1.1.6 Classification of Services

Classification of services refers to the systematic grouping of services based on common characteristics such as the type of customer, nature of service, ownership, degree of customer involvement, or method of delivery. Classification helps service providers to understand customer expectations; design appropriate marketing strategies; determine pricing policies; improve service quality; and allocate resources efficiently.

According to Christopher Lovelock and Jochen Wirtz (2022), services can be classified using different dimensions because no single classification can adequately explain the wide variety of services available in modern economies.

1.1.6.1 Bases of Classification of Services

1. Classification Based on the Nature of the Service

This classification was proposed by Christopher Lovelock and is one of the most widely accepted classifications in service marketing. Services are grouped according to what the service is directed at.

(a) People Processing Services

These services are directed at the customer's body. The customer must be physically present during service delivery. For example, a patient undergoing surgery cannot receive the service without being present in the hospital.

(b) Possession Processing Services

These services are performed on customers' physical possessions rather than on the customers themselves. For example, when a customer provides a laptop for repair, the service is performed on the laptop, not on the customer.

(c) Mental Stimulus Processing Services

These services influence the customer's mind, emotions, or knowledge. For example, a university imparts knowledge and develops students' skills through teaching and learning activities. Other examples include counselling and entertainment.

(d) Information Processing Services

These services involve collecting, processing, and transmitting information. For example, when customers transfer money through online banking, the bank processes financial information rather than physical goods. Insurance, accounting, legal consultancy, and information technology services are other examples of information processing services.

2. Classification Based on the Type of Customer

(a) Consumer Services (B2C)

Consumer services are provided directly to individual customers for their personal

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use and satisfaction. These services focus on meeting the daily needs and preferences of consumers. When Meera books a hotel room for her family holiday or orders food through a mobile app, she is using consumer services intended for individual customers. Examples include banking, healthcare, restaurants, hotels, beauty salons, online food delivery, and streaming services such as Netflix.

(b) Business Services (B2B)

Business services are offered to organisations, institutions, or businesses to support their operations and improve efficiency. These services help businesses perform specialised functions that contribute to their growth and productivity. A manufacturing company may hire an advertising agency to promote its products or appoint an auditing firm to examine its financial statements. Examples include auditing services by chartered accountants, management consultancy, advertising agencies, cloud computing services, and logistics services.

3. Classification Based on Profit Motive

(a) Profit Services

Profit services are provided by organisations with the primary objective of earning profits while satisfying customer needs. These organisations compete by offering quality services and creating value for customers. When a customer stays at a luxury hotel and pays for accommodation and other facilities, the hotel earns revenue and aims to generate profit. Examples include private hospitals, commercial banks, airlines, hotels, insurance companies, and multiplex cinemas.

(b) Non-Profit Services

Non-profit services are offered mainly to promote social welfare, education, healthcare, or community development rather than to earn profits. These organisations generally depend on donations, grants, government support, or membership fees. A charitable hospital may provide free or subsidised treatment to economically weaker patients using funds received from donors and charitable trusts. Examples include charitable hospitals, public libraries, non-governmental organisations (NGOs), and educational trusts.

4. Classification Based on Ownership

(a) Public Services

Public services are owned, financed, or managed by the government to provide essential services for the welfare of society. Their main objective is to serve the public and ensure equitable access to basic services. A citizen visiting a government hospital for medical treatment or sending a parcel through the post office is using a public service. Examples include India Post, government hospitals, public transport services, and municipal water supply.

(b) Private Services

Private services are owned and managed by individuals, partnerships, or private

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companies with the aim of providing efficient and competitive services. They often emphasise customer satisfaction, innovation, and service quality. A traveller booking a room at a private hotel or opening an account with a private bank is receiving services from privately owned organisations. Examples include Apollo Hospitals, ICICI Bank, Taj Hotels, and IndiGo Airlines.

5. Classification Based on Degree of Customer Contact

(a) High Contact Services

High contact services require direct interaction between the customer and the service provider during service delivery. The customer's presence and active participation are essential for the successful delivery of the service. A patient must be physically present before a doctor can examine and diagnose an illness, making personal interaction essential. Examples include medical treatment in hospitals, classroom teaching, hairdressing, and restaurant dining.

(b) Low Contact Services

Low contact services require little or no direct interaction between the customer and the service provider. These services are often delivered through technology or automated systems, making them more convenient and efficient. A customer can transfer money through an online banking app or withdraw cash from an ATM without interacting with a bank employee. Examples include online banking, ATM services, courier delivery, utility bill payments, and cloud storage services.

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Case Study 1 - Apollo Hospitals: A People Processing Service

Apollo Hospitals is one of India's largest healthcare providers, offering diagnosis, surgery, emergency care, pharmacy, telemedicine, and rehabilitation services. Patients must normally be physically present for diagnosis and treatment, making healthcare a people-processing service. However, Apollo also offers online consultations and digital health records, demonstrating how one organisation may provide more than one type of service. Traditional hospital care involves people processing, while electronic medical records involve information processing.

Case Study 2 - Netflix: A Mental Stimulus Processing Service

Netflix delivers entertainment through films, documentaries, and television programmes. Customers do not receive a physical product; instead, Netflix provides knowledge, entertainment, and emotional engagement. Its recommendation algorithms also process customer data to personalise viewing suggestions. Thus, Netflix combines mental stimulus processing with information processing.

1.1.7 Growth of the Service Sector

A decade ago, the residents of a small town primarily depended on agriculture and a few local shops for their livelihood. Today, the same town boasts banks, hospitals, educational institutions, hotels, supermarkets, courier services, mobile service centres, online food delivery, digital payment facilities, and travel agencies. Many young people are now employed in IT-enabled services, e-commerce companies, and customer support centres. This transformation illustrates the significant expansion of the service sector over time. As people's incomes, education, and technology have advanced, the demand for services has increased substantially, making the service sector one of the largest contributors to economic growth.

This illustration demonstrates that economic development is no longer driven solely by agriculture and manufacturing. In modern economies, services such as banking, education, healthcare, tourism, transportation, information technology, and telecommunications play a crucial role in improving people's quality of life and creating employment opportunities. As a result, the service sector has become one of the fastest-growing sectors worldwide.

1.1.7.1 Meaning of the Service Sector

The service sector, also known as the tertiary sector, comprises businesses and organisations that provide intangible products or services rather than tangible goods. It includes activities that satisfy the needs of individuals and organisations through expertise, knowledge, convenience, and customer experience.

Examples: Banking, insurance, education, healthcare, hospitality, tourism, transportation, communication, information technology, entertainment, and professional consultancy.

1.1.7.2 What is Growth of the Service Sector?

The growth of the service sector refers to the continuous increase in the size, contribution, and importance of service industries within an economy. This growth is reflected in higher employment, increased income, a greater contribution to Gross Domestic Product (GDP), technological advancement, and improved standards of living.

According to the World Bank and the Ministry of Statistics and Programme Implementation (MOSPI), Government of India, the service sector contributes more than half of India's Gross Value Added (GVA) and has become a major source of employment and foreign exchange earnings. The rapid expansion of information technology, financial services, healthcare, tourism, and digital services has accelerated this growth.

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1.1.7.3 Factors Responsible for the Growth of the Service Sector



Fig: 1.1.2 Factors Responsible for the Growth of the Service Sector

1. Rise in Income and Standard of Living

As people's incomes increase, they spend more on education, healthcare, tourism, entertainment, and financial services. Higher purchasing power encourages the growth of service industries that improve the quality of life. For example, a family with a higher income may purchase health insurance, enrol their children in private coaching classes, and travel for holidays, thereby increasing the demand for various services.

2. Technological Advancements

Advances in information and communication technology have transformed the way services are delivered. Digital platforms enable customers to access services quickly, conveniently, and from any location. For example, instead of visiting a bank branch, customers can transfer money, pay bills, and apply for loans through mobile banking applications.

3. Urbanisation

Rapid urbanisation has increased the demand for housing, transport, healthcare, education, entertainment, and financial services. As cities grow, more specialised service providers emerge to meet the needs of the urban population. For example, when a new residential area develops, banks, hospitals, supermarkets, schools, and restaurants are established to serve the local community.

4. Globalisation

Globalisation has enabled businesses to expand beyond national boundaries,

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increasing international trade in services. Companies now provide services to customers across the world through digital technologies and international business networks. For example, an Indian IT company develops software for clients in Europe and North America without establishing a physical office in those countries.

5. Growth of Information Technology

The rapid expansion of the IT industry has created new service sectors and transformed traditional services. Technology has improved speed, efficiency, and accessibility in service delivery. For example, students can now attend online classes and submit assignments through digital learning platforms without travelling to educational institutions.

6. Increasing Business Activities

As businesses expand, they require specialised support services such as accounting, auditing, advertising, logistics, legal consultancy, and human resource management. This has contributed significantly to the growth of business services.

For example, a newly established company may hire an advertising agency to promote its products and an auditing firm to prepare its financial statements.

7. Changing Consumer Lifestyles

Modern consumers seek convenience, speed, and personalised experiences. Busy lifestyles have increased the demand for home delivery, online booking, fitness services, entertainment, and personal care services. For example, working professionals often order groceries and meals online instead of visiting supermarkets, as it saves time and effort.

8. Government Initiatives and Policy Support

Governments encourage the growth of the service sector through investments, infrastructure development, digital initiatives, and supportive policies. These measures create new business opportunities and improve access to services. For example, the Digital India programme has promoted digital payments, online public services, and internet connectivity, making services more accessible to citizens.

1.1.7.4 Contribution of the Service Sector to the Indian Economy

The service sector plays a vital role in India's economic development by:

1. contributing more than half of the country's Gross Value Added (GVA);
2. generating employment opportunities in sectors such as IT, banking, tourism, and healthcare;
3. attracting foreign investment;
4. earning foreign exchange through exports of IT and business services;
5. improving infrastructure and quality of life; and

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6. supporting the growth of agriculture and manufacturing through logistics, finance, and communication services.

Activity:

Visit your local neighbourhood or market and identify five service businesses that did not exist there ten years ago. Discuss the possible reasons for their growth and explain how they meet the changing needs of customers.

Case Study 1 - Infosys: Driving India's Service Economy

Infosys is one of India's leading information technology and consulting companies. Founded in 1981, it provides software development, digital transformation, cloud computing, and consulting services to clients in more than 50 countries.

Infosys has created employment for thousands of skilled professionals and contributes significantly to India's export earnings through IT services. Its success demonstrates how knowledge-based services have become an important driver of economic growth in India.

Case Study 2 - Indian Railway Catering and Tourism Corporation (IRCTC)

The Indian Railway Catering and Tourism Corporation has transformed railway ticket booking in India through its online platform. Millions of passengers now book tickets, reserve tourism packages, and order meals online, which has reduced waiting times and improved customer convenience.

The success of IRCTC illustrates how digital technology has enhanced the efficiency and accessibility of public services.

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Recap

- ◊ Services are intangible activities that provide value, benefits, or experiences without transferring ownership of a physical product.
- ◊ Service marketing focuses on creating, delivering, and managing services that satisfy customer needs and build long-term relationships.

- ◊ Services possess unique characteristics such as intangibility, inseparability, variability, perishability, and lack of ownership.
- ◊ Goods and services differ in terms of tangibility, ownership, production, storage, and consumption.
- ◊ Services can be classified based on their nature, type of customer, ownership, profit motive, and degree of customer contact.
- ◊ The service sector has become a major contributor to economic development through employment generation and income creation.
- ◊ Technological advancements and digitalisation have significantly transformed service delivery and customer experience.
- ◊ Urbanisation, globalisation, and rising income levels have accelerated the demand for various services.
- ◊ India's service sector contributes more than half of the country's Gross Value Added (GVA) and plays a crucial role in national development.
- ◊ Understanding service marketing enables organisations to create customer value and achieve a competitive advantage.

Objective Questions

1. What is a service?
2. Which characteristic means a service cannot be touched before purchase?
3. Which characteristic states that services are produced and consumed simultaneously?
4. Which characteristic means services cannot be stored?
5. Which characteristic indicates that customers do not obtain ownership?
6. Which classification includes banking and insurance services for individuals?
7. Who proposed the people-processing classification of services?
8. Which sector is also known as the tertiary sector?
9. Name one example of an information processing service.
10. Which sector contributes the largest share to India's GVA?

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Answers

1. A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything
2. Intangibility
3. Inseparability
4. Perishability
5. Non-ownership
6. Classification based on the type of customers.
7. Lovelock
8. Service sector
9. Online banking
10. Service sector

Self Assessment Questions

1. Explain the concept of services and discuss their major characteristics with suitable examples.
2. Distinguish between goods and services with the help of appropriate illustrations.
3. Explain the various bases for the classification of services with examples.
4. Discuss the factors responsible for the rapid growth of the service sector in India.
5. Explain the contribution of the service sector to the Indian economy with suitable examples.

Assignments

1. Identify ten services that you use during a normal day and classify them according to the different bases of service classification.

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2. Visit any bank, hospital, or hotel and identify the characteristics of services reflected in its operations. Prepare a brief report.
3. Compare a manufacturing company and a service organisation based on the characteristics of goods and services.
4. Collect recent data on the service sector's contribution to India's economy and prepare a presentation highlighting major trends.
5. Conduct a small survey among five consumers to identify the service attributes they consider most important when choosing a service provider.

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Suggested Reading

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Unit - 2
Service Design and Service Marketing Framework

Learning Outcomes

After studying this unit, learners will be able to:

- ◊ explain the concept, importance, components and process of service design in service organisations
- ◊ describe the Service Marketing Triangle and distinguish between internal, external and interactive marketing
- ◊ analyse the role of service design and the Service Marketing Triangle in delivering superior service quality and customer satisfaction

Prerequisite

Meera visits a hospital for a routine medical consultation. The doctor is experienced and the consultation is satisfactory. Yet, when she looks back at the visit, she remembers much more than the doctor's advice. She had to search for the right department, register at the counter, wait for her appointment, make the payment, collect her prescription and obtain her test reports.Now imagine that each of these steps was simple, clearly organised and handled with care. The same medical service would feel very different.Why does the way a service is delivered matter so much?

A service is experienced through a series of interactions between the customer, employees, processes, technology and the organisation. Therefore, service quality depends not only on the core service but also on how these elements work together. Effective service design focuses on creating a service process that is convenient, consistent and responsive to customer needs.

This unit examines the meaning, importance, components and process of service design. It also introduces the Service Marketing Triangle, which explains

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the relationships among the organisation, employees and customers through external, internal and interactive marketing. Understanding these concepts helps organisations design better service experiences and develop lasting customer relationships.

Keywords

Service Design, Service Marketing Triangle, Internal Marketing, Interactive Marketing, Customer Experience

Discussion

1.2.1 Service Design

Consider two coffee shops on the same street. The first boasts a pleasant ambience, comfortable seating, friendly staff, digital payment facilities, free Wi-Fi, and customers receive their coffee within five minutes. Employees greet every customer with a smile and promptly resolve complaints. The second coffee shop serves coffee of similar quality, but customers face long waits. The seating arrangement is uncomfortable, employees appear uninterested, and there is no proper system for taking orders or handling customer complaints. Although both shops sell coffee, customers consistently prefer the first. Why?

The answer lies not only in the quality of the coffee but also in how the service has been designed. The first coffee shop has carefully planned every aspect of the customer experience, from entering the shop to placing the order, making the payment, receiving the product, and leaving the premises. This systematic process is known as service design.

Service design is the systematic process of planning, organising, and improving all the elements involved in delivering a service. Its aim is to effectively meet customer needs while achieving the organisation's objectives.

In manufacturing industries, considerable effort is devoted to designing products before their market introduction. Similarly, service organisations must meticulously design their services before delivering them to customers. A well-designed service ensures customers receive consistent, efficient, and satisfying experiences. It considers customer expectations, employee roles, technology, physical facilities, and service delivery processes. Whether it is a hospital, airline, hotel, bank, or educational institution,

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effective service design plays a crucial role in determining customer satisfaction and organisational success.

1.2.1.1 Definitions of Service Design

According to Christopher Lovelock and Jochen Wirtz (2022),

"Service design involves planning the processes, people, and physical evidence required to create and deliver value to customers."

According to Valarie Zeithaml, Mary Jo Bitner, and Dwayne Gremler (2023),

"Service design is concerned with creating service processes and customer experiences that satisfy customer expectations while improving organisational efficiency."

Both definitions emphasise that service design focuses on creating value for customers through carefully planned service processes.

1.2.1.2 Importance of Service Design

1. Enhances Customer Satisfaction

A well-designed service provides customers with convenience, speed, and reliability. When every stage of the service process is carefully planned, customers are more likely to have a positive experience. For example, a patient visiting a hospital where appointments are scheduled online, registration is completed quickly, and doctors are available on time is likely to be more satisfied than a patient experiencing long queues and delays.

2. Improves Service Quality

Service design establishes standard procedures that help employees deliver consistent and high-quality services. For example, a hotel that follows a standard check-in procedure for every guest ensures that each customer receives a similar level of service regardless of the employee on duty.

3. Increases Operational Efficiency

Carefully designed service processes reduce unnecessary activities, save time, and improve the utilisation of resources. For example, self-checkout counters in supermarkets reduce customer waiting time and allow employees to focus on assisting customers with special needs.

4. Creates Competitive Advantage

When competing organisations provide similar services, superior service design becomes an important source of competitive advantage. For instance, many airlines offer similar routes, but passengers often prefer airlines that provide easy online booking, comfortable seating, punctual departures, and efficient customer support.

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5. Reduces Service Failures

Service failures occur when customers' expectations are not met. Proper service design anticipates potential problems and establishes procedures to prevent or quickly resolve them. For instance, an online shopping platform automatically sends order confirmation, shipping updates, and delivery notifications to reduce customer uncertainty and complaints.

1.2.1.3 Components of Service Design

Service design consists of several interrelated elements.

1. People

Employees are the face of the organisation and play a vital role in delivering services. Example: A courteous receptionist in a hospital creates a positive first impression and reassures anxious patients.

2. Processes

Processes refer to the sequence of activities through which a service is delivered. Example: In a restaurant, the process includes welcoming customers, taking orders, preparing food, serving meals, and processing payments.

3. Physical Evidence

Since services are intangible, customers often judge quality through physical surroundings. Physical evidence includes buildings, furniture, lighting, cleanliness, employee uniforms, brochures, websites, and signage. Example: A clean hotel lobby with professional staff uniforms creates confidence even before guests receive the actual service.

4. Technology

Technology improves service speed, accuracy, and convenience. Example: Mobile banking applications allow customers to perform transactions without visiting a bank branch.

5. Customer Experience

Service design focuses on the customer's journey from the first interaction until after the service is completed. Example: Airlines send booking confirmations, boarding reminders, and feedback requests after the journey to enhance the overall customer experience.

1.2.1.4 Steps in Designing a Service

The process of service design generally involves the following steps:

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Fig: Steps in designing a Service

Step 1: Identify Customer Needs

The organisation studies customer expectations through surveys, interviews, and market research. Example: A hotel asks guests about the facilities they value most before introducing new services.

Step 2: Define the Service Concept

The organisation determines the type of value it intends to provide. For example, a hospital might position itself as a provider of affordable healthcare with minimal waiting times.

Step 3: Design the Service Process

Each stage of service delivery is carefully planned. For instance, an airline designs procedures for ticket booking, baggage handling, boarding, and in-flight services.

Step 4: Train Employees

Employees receive training to ensure consistent service delivery. For example, customer service executives are trained to handle complaints politely and professionally.

Step 5: Utilise Supporting Technology

Technology is integrated wherever possible to improve efficiency. For example, restaurants introduce QR-code menus and digital payment systems.

Step 6: Evaluate and Improve

Customer feedback is continuously analysed to improve the service. For example, hotels analyse online reviews and implement corrective measures to enhance guest satisfaction.

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Case Study 1 - Starbucks: Designing the Customer Experience

Starbucks has become one of the world's most successful coffeehouse brands, not merely because of its coffee, but because of its carefully designed service experience. Starbucks focuses on creating a welcoming environment through comfortable seating, pleasant music, free Wi-Fi, personalised greetings, and customised beverages. Customers can order through the mobile application, collect loyalty points, and receive personalised recommendations. The company carefully designs every customer touchpoint, from store ambience to employee interaction, to create a memorable experience that encourages repeat visits.

Learning Point: Effective service design creates value that extends far beyond the core product.

Case Study 2 - Taj Hotels: Service by Design

Indian Hotels Company Limited is renowned for delivering exceptional hospitality through carefully designed service processes. Employees undergo extensive training in customer care, cultural sensitivity, and personalised service. From the reservation stage to check-out, every interaction is planned to ensure guests receive a seamless and memorable experience. This emphasis on service design has contributed significantly to the brand's reputation for excellence.

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1.2.2 The Service Marketing Triangle

Mr. Arjun is planning a family holiday. He books a room at a reputable hotel after seeing attractive advertisements on social media. The advertisement promises comfortable accommodation, courteous staff, delicious food, and excellent customer service. When he arrives at the hotel, the receptionist welcomes him warmly, the room is ready on time, housekeeping responds immediately to his requests, and the restaurant staff provide prompt and friendly service. Before leaving, the hotel requests his feedback and thanks him for choosing their establishment. Mr. Arjun leaves with a positive impression and recommends the hotel to his friends.

Now consider another situation. Suppose the hotel advertises excellent service, but the receptionist behaves rudely, rooms are not cleaned properly, and customer complaints are ignored. Even though the advertisement created high expectations, the actual experience disappoints the customer.

This example shows that good advertising alone cannot ensure customer satisfaction. Employees must deliver the promises made by the company, and customers must experience those promises during service delivery. This relationship is explained through the Service Marketing Triangle.

The Service Marketing Triangle is a conceptual framework that explains how a

service organisation creates, communicates, and delivers value by maintaining strong relationships among the company, its employees, and its customers.

1.2.2.1 Definition

According to Zeithaml, Bitner, and Gremler (2023), the Service Marketing Triangle illustrates the relationships among the company, employees, and customers that are necessary for successfully marketing services.

1.2.2.2 Components of the Service Marketing Triangle

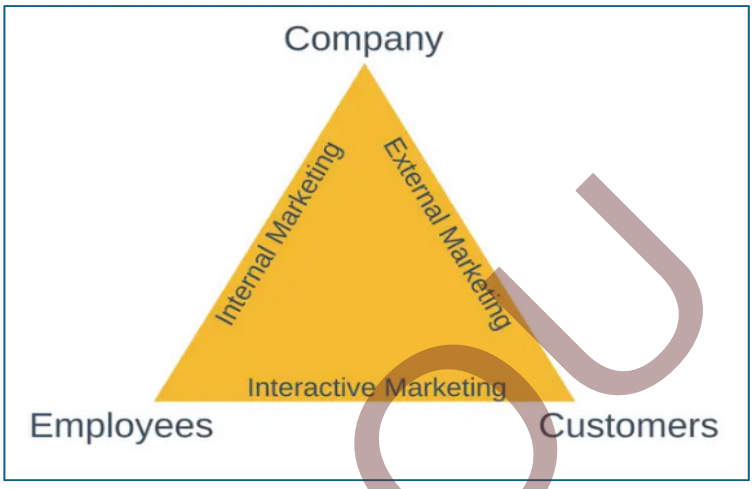


Fig: 1.2.2 Service Marketing Triangle

The triangle consists of three key participants:

1. Company
2. Employees
3. Customers

The relationships among these participants are explained through three types of marketing:

1. Internal Marketing
2. External Marketing
3. Interactive Marketing

1. Internal Marketing (Company – Employees)

Internal marketing refers to the activities undertaken by an organisation to train, motivate, support, and empower its employees so that they can deliver high-quality services. Employees are considered internal customers because their satisfaction directly influences customer satisfaction. According to Berry (1981), internal marketing treats

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employees as internal customers and jobs as internal products that satisfy the needs of employees while achieving organisational objectives.

Why is Internal Marketing Important?

Employees cannot satisfy customers unless they themselves are properly trained, motivated, adequately rewarded, well-informed, and supported by management. When employees feel valued, they become more committed to delivering excellent service.

For example, suppose a five-star hotel introduces a new online reservation system. Before implementing it, the management conducts training programmes for reception staff, provides user manuals, and allows employees to practise using the software.As a result, employees confidently assist customers during the booking process. This is an example of internal marketing.

The company undertakes several initiatives such as employee recruitment, orientation programmes, technical and behavioural training, motivation and rewards, internal communication, teamwork, leadership development, performance appraisal, and employee welfare programmes.

Case Study - Ritz-Carlton Hotels

The Ritz-Carlton Hotel Company is recognised worldwide for exceptional customer service. Every employee receives extensive training before interacting with guests and participates in continuous development programmes. Staff members are also empowered to resolve guest problems immediately without waiting for managerial approval, within defined limits. This investment in employee development enables Ritz-Carlton to deliver consistent and personalised service across its hotels.

2. External Marketing (Company – Customers)

External marketing includes all activities through which the company communicates and makes promises to customers regarding its services. These activities create awareness, attract customers, and establish expectations about the service. External marketing encompasses advertising, sales promotion, digital marketing, public relations, social media campaigns, personal selling, pricing, and branding.

Example:An airline advertises that it offers "on-time departures, comfortable seating, and world-class customer service."The advertisement creates expectations among potential passengers even before they purchase the ticket.This communication is external marketing.

Importance of External Marketing

Effective external marketing:

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I. attracts new customers;

II. builds brand image;

III. communicates service benefits;

IV. differentiates the organisation from competitors; and

V. encourages repeat purchases.

However, organisations must ensure that the promises made are realistic and achievable.

Case Study - Singapore Airlines

Singapore Airlines promotes itself as an airline offering superior comfort, excellent hospitality, and world-class customer service. Its advertisements consistently communicate luxury, punctuality, and professionalism. The airline supports these promises through employee training and service standards, helping it maintain one of the strongest reputations in the aviation industry.

3. Interactive Marketing (Employees – Customers)

Interactive marketing refers to the direct interaction between employees and customers during service delivery. This interaction determines whether the promises made by the organisation are actually fulfilled.

Why is Interactive Marketing Important?

Customers evaluate service quality largely based on their interactions with employees. Employees' behaviour, communication skills, responsiveness, empathy, and professionalism significantly influence customer satisfaction.

Example:A customer visits a bank to open a savings account. The bank executive patiently explains the available account options, helps complete the documentation, and answers every question politely.The customer leaves the bank feeling confident and satisfied.This interaction represents interactive marketing.

Factors Influencing Interactive Marketing

i. employee behaviour

ii. communication skills

iii. empathy

iv. responsiveness

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v. problem-solving ability

vi. appearance

vii. professionalism

viii. customer participation

Case Study - Taj Hotels

Indian Hotels Company Limited is renowned for its personalised hospitality. Employees address guests courteously, remember customer preferences, and promptly respond to special requests. This continuous interaction between employees and guests creates memorable experiences and encourages repeat visits.

Learning Point: Every employee-customer interaction is a "moment of truth" that shapes customer perceptions of service quality.

1.2.2.4 Relationship Among the Three Types of Marketing

The three components of the Service Marketing Triangle are closely interconnected.

Relationship	Type of Marketing	Purpose
Company -Employees	Internal Marketing	Enable employees to deliver the promised service.
Company - Customers	External Marketing	Communicate and promise value to customers.
Employees - Customers	Interactive Marketing	Deliver the promised service through direct interaction.

If any one of these relationships fails, customer satisfaction is affected.

For example:

◊ Excellent advertising but poorly trained employees leads to disappointed customers.

◊ Well-trained employees but misleading advertisements create unrealistic expectations.

◊ Good employees and honest advertising but poor organisational support results in inconsistent service delivery.

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Therefore, all three forms of marketing must work together.

Activity:

Visit a nearby bank, hospital, or restaurant and observe:

1. How does the organisation attract customers? (External Marketing)
2. How are employees trained or guided? (Internal Marketing)
3. How do employees interact with customers? (Interactive Marketing)

Discuss how these three activities influence customer satisfaction.

1.2.3 Importance of the Service Marketing Triangle in Delivering Superior Service Quality

The Service Marketing Triangle plays a crucial role in delivering superior service quality by ensuring that the organisation, employees, and customers work together to create a satisfying service experience. It helps organisations make realistic promises, prepare employees to fulfil those promises, and ensure that customers receive the expected level of service. The following points explain its importance.

1. Ensures Consistency Between Promises and Service Delivery

The Service Marketing Triangle ensures that the promises made through advertisements and promotions are actually fulfilled during service delivery. This builds customer confidence and prevents dissatisfaction caused by unrealistic expectations.

Example: A hotel advertises "24-hour room service" and ensures that trained staff are available throughout the day and night to fulfil this promise.

2. Improves Customer Satisfaction

When employees deliver services exactly as promised by the company, customers have a positive experience and are more likely to be satisfied. Satisfied customers often become loyal patrons and recommend the organisation to others.

Example: A customer visits a bank expecting quick service after seeing its advertisement, and the staff efficiently completes the account-opening process within a short timeframe.

3. Strengthens Employee Performance

The triangle emphasises internal marketing by training, motivating, and supporting employees to perform their responsibilities effectively. Well-trained employees are more confident, productive, and capable of handling customer needs professionally.

Example: Before introducing a new digital payment system, a retail store trains all its employees so they can assist customers without confusion.

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4. Builds Strong Customer Relationships

Interactive marketing encourages employees to communicate politely, respond promptly, and understand customer needs. Positive interactions foster trust and strengthen long-term relationships between customers and the organisation.

Example: A hospital receptionist patiently guides patients through the registration process and courteously answers their queries, making them feel comfortable and valued.

5. Enhances Service Quality

The Service Marketing Triangle helps organisations maintain high service standards by coordinating the efforts of management, employees, and customers. When all three elements work together, customers receive reliable, responsive, and high-quality services.

Example: An airline not only promises on-time departures but also trains its staff and coordinates airport operations to ensure punctual service.

6. Creates Competitive Advantage

In highly competitive markets, excellent service quality becomes a key differentiator between organisations. The Service Marketing Triangle helps organisations consistently deliver superior customer experiences, giving them a competitive advantage.

Example: Two restaurants may offer similar menus, but customers prefer the one where employees are friendly, orders are served promptly, and complaints are resolved efficiently.

7. Increases Customer Loyalty

Customers who consistently receive quality service are more likely to return and continue using the organisation's services. Loyal customers also generate positive word-of-mouth publicity, which attracts new customers.

Example: A family repeatedly chooses the same hotel because the staff remember their preferences and provide personalised service during every visit.

8. Reduces Service Failures and Customer Complaints

The Service Marketing Triangle encourages organisations to train employees properly and establish clear service standards. This reduces mistakes, improves problem-solving, and enables quick recovery when service failures occur.

Example: A restaurant immediately replaces an incorrectly served meal and apologises to the customer, preventing dissatisfaction and maintaining goodwill.

9. Encourages Effective Internal Communication

Internal marketing ensures that employees clearly understand the organisation's objectives, policies, and service standards. Effective communication enables employees

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to deliver services confidently and consistently.

Example: Before launching a new insurance policy, the company conducts briefing sessions so that all customer service representatives can explain the policy accurately.

10. Supports Long-Term Organisational Success

The combined efforts of internal, external, and interactive marketing enhance customer satisfaction, employee commitment, and organisational reputation, thereby contributing to sustainable growth and long-term business success.

For example, a university that promotes quality education, regularly trains its faculty, and provides excellent student support services will attract more admissions and build a strong reputation over time.

Service Marketing

Service marketing can be defined as the process of planning, pricing, promoting and delivering services to create value, satisfy customer needs and achieve organisational objectives. Service marketing refers to the planning and execution of marketing activities aimed at creating, communicating, delivering and exchanging value through services. Service marketing focuses not only on what the organisation offers but also on how the service is delivered and how customers experience it.

For example, a hospital does not market only medical treatment. The patient's experience is also influenced by appointment scheduling, staff behaviour, waiting time, cleanliness, communication, billing and follow-up care. Similarly, a bank's service is evaluated through factors such as transaction convenience, employee responsiveness, digital accessibility, security and problem resolution.

Service marketing therefore requires organisations to understand customer needs and expectations, design suitable service offerings, determine appropriate prices, ensure convenient access and manage the interactions involved in service delivery. A key feature of service marketing is that customer experience and perceived quality are central to value creation. A technically sound service may still result in dissatisfaction if it is delivered inefficiently or if customer interactions are poor.

Significance of Service Marketing

Service marketing is important because customers often evaluate a service not only by its outcome but also by how it is delivered and experienced. Its significance can be understood through the following aspects:

1. Enhances Customer Satisfaction

Effective service marketing helps organisations identify and meet customer expectations through reliable service, responsive employees and convenient processes. A positive service experience increases customer satisfaction.

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2. Builds Customer Relationships

Services often involve repeated interactions between customers and service providers. Consistent service quality and effective communication help organisations develop long-term relationships and encourage customer loyalty.

3. Differentiates the Service

When competing organisations offer similar core services, customer experience can become an important source of differentiation. Factors such as employee behaviour, convenience, responsiveness and service environment can distinguish one provider from another.

4. Communicates Service Value

Because services are intangible, customers may find it difficult to assess their value before purchase. Service marketing uses communication, reviews, demonstrations, physical evidence, and other cues to make the benefits of a service more understandable.

5. Supports Competitive Advantage

Effective service marketing enables organisations to combine service quality, customer experience, technology, and relationship management to create a competitive position that is difficult for competitors to replicate.

6. Improves Service Delivery

Service marketing provides insights into customer expectations and helps organisations improve their processes, employee interactions, delivery channels and customer support. This can result in greater efficiency as well as better customer experiences.

7. Contributes to Business Performance

Satisfied and loyal customers are more likely to make repeat purchases, recommend the service to others and maintain long-term relationships with the organisation. Consequently, effective service marketing can contribute to revenue growth and sustainable business performance.

Emerging Trends in Service Marketing

Service marketing is changing rapidly as technology, customer expectations and new business models reshape how services are designed and delivered. The major emerging trends include:

1. Artificial Intelligence

Organisations are increasingly using artificial intelligence (AI), chatbots, virtual assistants and automated systems to provide faster and more personalised customer support. For example, banks use AI-enabled chatbots to respond to routine customer queries at any time.

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2. Personalisation

Customers increasingly expect services to reflect their individual preferences and requirements. Organisations use customer data and digital technologies to provide personalised recommendations, offers and communication. For example, Netflix recommends content based on a user's viewing behaviour.

3. Omnichannel Service Delivery

Customers now interact with service providers through multiple channels, including websites, mobile applications, social media, physical outlets and call centres. Organisations are integrating these channels to provide a consistent experience across customer touchpoints.

6. Digital and Contactless Services

Digital payments, online consultations, virtual classrooms, app-based bookings, and contactless transactions have expanded the ways in which services can be accessed and consumed. This has increased the importance of digital platforms in service delivery.

7. Social Media and Influencer Engagement

Social media has become an important channel for communicating service value, engaging customers, managing feedback and building brand communities. Reviews, ratings, user-generated content and influencer recommendations can significantly affect customer perceptions.

8. Subscription-Based Services

Many organisations are shifting from one-time transactions to subscription models that provide continuous access to services. Streaming platforms, software providers, fitness services and digital learning platforms commonly use subscription-based models.

10. Sustainable Service Practices

Growing environmental awareness is encouraging service organisations to adopt sustainable practices such as digital documentation, energy-efficient operations, waste reduction, responsible sourcing and environmentally responsible delivery systems.

11. Data-Driven Service Management

Organisations increasingly use customer data, analytics and real-time feedback to understand behaviour, predict demand, identify service problems and improve customer experiences. This enables service decisions to become more responsive and evidence-based.

E-service.

E-service (Electronic Service) refers to services that are created, delivered, accessed and consumed through electronic networks, particularly the internet and digital technologies. It enables customers to obtain services anytime and anywhere using devices such as computers, smartphones, tablets, or self-service kiosks.

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E-service can be defined as a service that is delivered through electronic channels to facilitate transactions, communication and value creation between organisations and customers. E-services rely on digital platforms, websites, mobile applications, cloud systems and online networks for service delivery.

Examples of E-Services

- ◊ Banking: Online fund transfers, mobile banking, digital payments and internet banking.
- ◊ Education: Online classes, digital learning platforms and virtual examinations.
- ◊ Healthcare: Telemedicine, online consultations and digital health records.
- ◊ Retailing: Online shopping and e-commerce platforms.
- ◊ Travel and Tourism: Online ticket booking, hotel reservations and digital check-in.
- ◊ Entertainment: OTT platforms, online gaming and music streaming services.
- ◊ Government Services: Online tax filing, digital certificates and e-governance services.

Advantages of E-Services

1. Saves Time and Cost

E-services reduce the time and expenses involved in visiting physical service locations and completing manual procedures. Customers can perform transactions, make payments, book services, or access information from their own devices. Organisations can also reduce costs related to paperwork, physical infrastructure and routine manual operations.

2. Provides 24×7 Availability

E-services can generally be accessed at any time, subject to system availability. For example, customers can use internet banking to check account balances or transfer funds even outside regular banking hours.

3. Expands Market Reach

Digital platforms allow organisations to provide services to customers located in different cities, regions and countries without establishing a physical presence in every location. For example, an online learning platform can provide courses to learners across different geographical areas.

4. Improves Customer Convenience

E-services enable customers to access services from convenient locations using smartphones, computers, or other connected devices. Activities such as booking tickets,

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ordering food, making payments, or scheduling appointments can be completed without visiting a physical service outlet.

5. Enables Faster Communication

Digital systems facilitate the rapid exchange of information and enable transactions to be completed within a short time. For example, digital payment systems allow customers to transfer money and receive transaction confirmations almost immediately.

6. Supports Personalised Service Delivery

E-services enable organisations to use customer information, preferences, and previous interactions to provide more relevant services. For example, an OTT platform can recommend movies and programmes based on a user's viewing history, creating a more personalised experience.

Limitations of E-Services

1. Dependence on Internet Connectivity

E-services require reliable internet connectivity and compatible digital devices. Customers in areas with poor network coverage or limited access to suitable devices may find it difficult to use online services effectively.

2. Concerns Regarding Cybersecurity

E-services involve the collection, storage, and transmission of customer information, including personal and financial data. Weak security measures can expose such information to unauthorised access, fraud, identity theft, or other cyber threats.

3. Limited Personal Interaction

Most e-services reduce face-to-face interaction between customers and service providers. This can be a limitation when customers require personal attention, emotional support, detailed explanations, or assistance with complex problems. For example, some healthcare or financial services may require direct interaction with professionals.

4. Digital Divide

Not all customers have equal access to digital devices, internet services, or the skills required to use digital platforms. Differences in digital literacy, income, location, age and infrastructure can therefore create unequal access to e-services.

5. Technical Failures

E-services depend on software, hardware, networks, and digital platforms. Server failures, application errors, system maintenance, power interruptions, or network problems can temporarily prevent customers from accessing services or completing transactions.

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Recap

- Service design involves systematically planning people, processes, technology, and physical evidence to create valuable customer experiences.
- A well-designed service improves customer satisfaction, operational efficiency, and organisational competitiveness.
- Service design includes five major components: people, processes, physical evidence, technology, and customer experience.
- The service design process begins with identifying customer needs and continues through implementation, evaluation, and continuous improvement.
- The Service Marketing Triangle explains the relationship among the company, employees, and customers.
- Internal marketing focuses on training, motivating, and supporting employees to deliver quality services.
- External marketing communicates the organisation's service promises and creates customer expectations.
- Interactive marketing occurs during employee-customer interactions and determines whether service promises are fulfilled.
- All three forms of marketing must work together to deliver consistent and superior service quality.
- Effective implementation of the Service Marketing Triangle enhances customer satisfaction, loyalty, organisational reputation, and long-term success.

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Objective Questions

1. What is service design?
2. Which component of service design includes employee behaviour and service delivery?
3. Which step in service design identifies customer expectations?
4. Name the framework that explains the relationship among the company, employees, and customers.

5. Which type of marketing focuses on employee training and motivation?
6. Which type of marketing creates service promises through advertising?
7. Which type of marketing occurs during employee-customer interaction?
8. What is the first step in designing a service?
9. Which component of service design includes buildings, uniforms, and ambience?
10. What is the ultimate objective of effective service design?
11. Which type of marketing directly influences customer satisfaction during service delivery?

Answers

1. Planning services
2. People
3. Identify customer needs
4. Service Marketing Triangle
5. Internal marketing
6. External marketing
7. Interactive marketing
8. Identify customer needs
9. Physical evidence
10. Customer satisfaction
11. Interactive marketing

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Self Assessment Questions

1. Explain the concept, importance, and components of service design with suitable examples.
2. Describe the steps involved in designing a service and explain how each step contributes to customer satisfaction.

3. Explain the Service Marketing Triangle and discuss the roles of internal, external, and interactive marketing.
4. Discuss the importance of the Service Marketing Triangle in delivering superior service quality with relevant examples.
5. Explain how service design and the Service Marketing Triangle together contribute to organisational success.

Assignments

1. Visit a nearby bank, hospital, hotel, or restaurant and analyse its service design by identifying its people, processes, technology, and physical evidence. Prepare a report with suggestions for improvement.
2. Select a service organisation and identify examples of internal, external, and interactive marketing practices. Present your findings in the classroom.
3. Compare the service design strategies of two competing service organisations and evaluate which organisation provides a better customer experience.
4. Interview five customers of any service organisation to identify the factors that influence their satisfaction. Relate the findings to the principles of service design.
5. Prepare a Service Marketing Triangle for a service organisation of your choice and explain how the organisation can improve each side of the triangle.

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BLOCK - 02



Marketing Mix in Service Marketing

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Unit - 1
Traditional Marketing Mix in Services

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the concept of the Services Marketing Mix and the significance of the traditional marketing mix elements - Product, Price, Place, and Promotion in service organisations
- ◊ examine the product, pricing, promotion, and distribution decisions adopted by service organisations to create customer value and achieve marketing objectives
- ◊ analyse the various pricing strategies, promotional tools, and distribution methods used by service organisations in different business contexts
- ◊ evaluate how the effective integration of Product, Price, Place, and Promotion contributes to customer satisfaction, competitive advantage, and organisational success

Prerequisite

On a busy Saturday, Neha wanted to order lunch from a food delivery app. Several restaurants offered similar dishes, but she did not choose simply by looking at the food. She compared the prices, checked customer reviews, noticed the promotional offers, looked at the delivery time and considered whether the restaurant provided convenient ordering and payment options.

Her decision raises an important question: If several businesses provide a similar service, what makes a customer choose one over another?

The answer often lies in the way the service is designed, priced, communicated and made accessible to customers. A good service may fail to attract cus-

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tomers if its price is unsuitable, its value is poorly communicated, or it is difficult to access. Similarly, effective promotion and convenient delivery can strengthen the customer's perception of value.

Service organisations therefore need to make a set of interconnected marketing decisions. These include deciding what service to offer, what price to charge, how to promote it, where and how to deliver it. These elements together form the foundation of the service marketing mix. Understanding how they work individually and collectively enables organisations to respond to customer expectations, create value, strengthen satisfaction and compete effectively in the service sector.

Keywords

Services Marketing Mix, Traditional Marketing Mix, Product Decision, Pricing Strategy, Pricing Tactics, Service Promotion, Promotion Mix, Distribution, Service Distribution Channels, Customer Value

Discussion

2.1.1 Meaning of Services Marketing Mix

The Services Marketing Mix refers to the combination of marketing tools and strategies that an organisation uses to satisfy customer needs, achieve organisational objectives, and create value in the service market. It provides a framework for planning and implementing marketing activities by integrating various elements that influence customers' perceptions and purchasing decisions.

In traditional marketing, the marketing mix consists of four elements - Product, Price, Place, and Promotion, commonly known as the 4Ps. However, services differ significantly from physical goods because they are intangible, inseparable, variable (heterogeneous), and perishable. These unique characteristics make the marketing of services more complex than the marketing of tangible products. Consequently, the traditional 4Ps alone are insufficient for managing and marketing services effectively.

To address the unique nature of services, marketing scholars Booms and Bitner (1981) proposed three additional elements - People, Process, and Physical Evidence. Together with the traditional four elements, these form the 7Ps of the Services Marketing Mix. This extended marketing mix provides organisations with a comprehensive framework for designing, delivering, and promoting services while ensuring customer satisfaction and long-term relationships.

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The Services Marketing Mix enables organisations to develop service offerings that meet customer expectations, determine appropriate pricing strategies, choose effective distribution channels, communicate value through promotional activities, ensure competent and customer-oriented employees, design efficient service delivery processes, and create tangible evidence that enhances customers' confidence in the quality of the service.

For example, a hospital not only provides medical treatment (product) but also determines consultation fees (price), offers services through hospitals, clinics, or telemedicine platforms (place), promotes its healthcare services through advertisements and awareness campaigns (promotion), employs skilled doctors and nurses (people), follows systematic procedures for patient care (process), and maintains clean facilities with modern medical equipment (physical evidence). Together, these elements influence patients' perceptions of service quality and their overall satisfaction.

Thus, the Services Marketing Mix serves as a strategic framework that helps organisations deliver superior service experiences, differentiate themselves from competitors, build customer loyalty, and achieve sustainable competitive advantage in today's increasingly service-oriented economy.

2.1.2 The Seven Ps of Services Marketing

The Services Marketing Mix consists of seven elements, commonly known as the 7Ps. These elements provide organisations with a comprehensive framework for planning, delivering, and promoting services that satisfy customer needs and achieve organisational objectives. The seven elements are Product, Price, Place (Distribution), Promotion, People, Process, and Physical Evidence.

The first four elements - Product, Price, Place, and Promotion are known as the traditional marketing mix. They apply to both goods and services, although their application differs in service organisations because of the unique characteristics of services such as intangibility, inseparability, heterogeneity, and perishability.

The remaining three elements - People, Process, and Physical Evidence are referred to as the extended marketing mix. These elements were introduced to address the unique challenges associated with marketing services and play a significant role in influencing customer perceptions and service quality.

As shown in Figure 2.1.1, the seven elements of the services marketing mix are:

- Product
- Price
- Place (Distribution)
- Promotion
- People
- Process

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◊ Physical Evidence

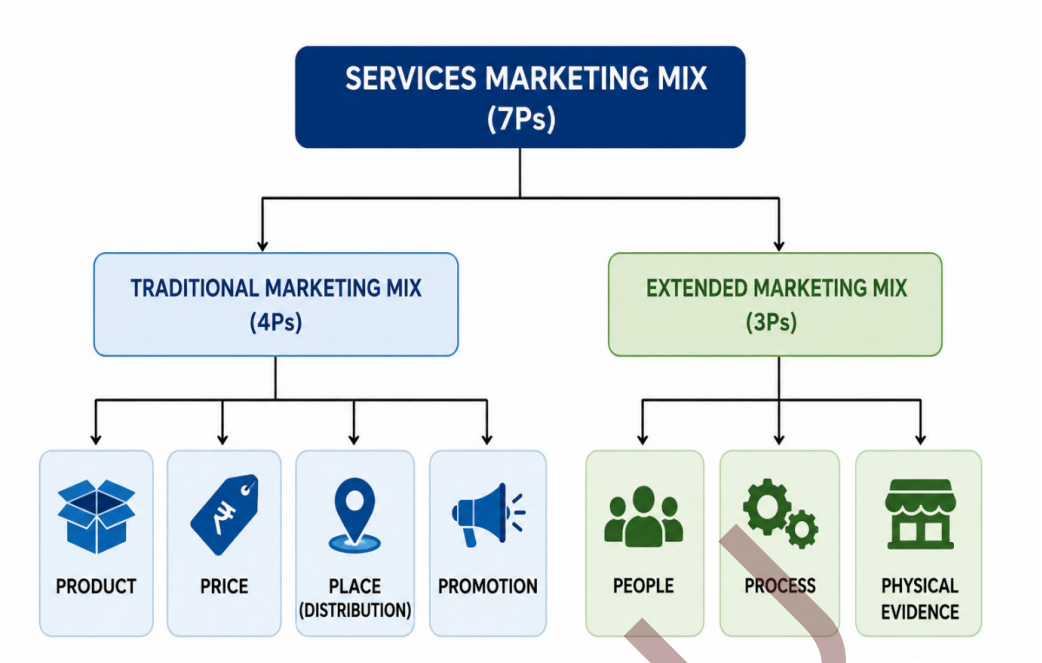


Fig 2.1.1 - 7 P's of Services Marketing Mix

In this unit, the discussion focuses on the traditional elements of the services marketing mix, namely Product, Price, Place, and Promotion, as these form the foundation of service marketing strategies. The extended elements - People, Process, and Physical Evidence will be discussed in detail in the next unit, where their role in service delivery and customer experience will be examined.

2.1.2.1 Product Decision

A product is the core element of the marketing mix because it represents the value that an organisation offers to its customers. In services marketing, however, a product differs significantly from a physical good. A service is intangible, cannot be owned, is produced and consumed simultaneously, and its quality often depends on the people who deliver it. Consequently, organisations must carefully design and manage their service offerings to meet customer expectations and create a competitive advantage. The decisions relating to the nature, features, quality, branding, and support associated with a service are collectively known as product decisions.

Meaning of Product Decision

A product decision refers to the decisions made by an organisation regarding the planning, design, development, improvement, and management of its products or services to satisfy customer needs and achieve organisational objectives.

In services marketing, product decisions involve determining the type of service to be offered, the quality of the service, the features included, the level of customer support,

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branding, and the overall customer experience. Since customers evaluate services based on their experiences rather than physical attributes, service organisations must focus on delivering value consistently.

Elements of Product Decision in Services

1. Service Quality

Service quality is one of the most important aspects of a service product. Organisations must ensure that services are reliable, responsive, safe, and capable of meeting customer expectations. High-quality service increases customer satisfaction and loyalty.

2. Service Features

Service features refer to the specific characteristics or facilities provided as part of the service. Organisations may include additional features to enhance customer convenience and create greater value. For example, an online banking service may offer mobile banking, instant fund transfers, bill payments, and investment services as additional features.

3. Branding

Branding helps customers recognise and distinguish one service provider from another. A strong brand creates trust, reduces customer uncertainty, and influences purchase decisions. Brand names, logos, slogans, and organisational reputation all contribute to successful branding.

4. Customer Support

Customer support includes assistance provided before, during, and after service delivery. Efficient customer support improves customer satisfaction by resolving queries, addressing complaints, and providing timely assistance.

5. Service Innovation

Customer needs and market conditions continuously evolve. Organisations must regularly introduce new services or improve existing ones to remain competitive. Innovation helps attract new customers while retaining existing ones.

Product decisions form the foundation of services marketing because they determine the value that an organisation delivers to its customers. Unlike tangible goods, service products are evaluated primarily through customer experiences, making decisions regarding service quality, features, branding, customer support, and innovation particularly important. Well-informed product decisions enable organisations to satisfy customer needs, strengthen brand reputation, enhance customer loyalty, and respond effectively to changing market conditions. As service industries continue to evolve, organisations that consistently design and improve customer-oriented services are more likely to achieve long-term success and sustain a competitive advantage.

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2.1.2.2 Pricing Strategies and Tactics

Price is one of the most important elements of the services marketing mix because it directly influences customers' purchase decisions and determines an organisation's revenue and profitability. Unlike tangible products, services are intangible, cannot be stored, and often involve simultaneous production and consumption. These unique characteristics make pricing services more complex than pricing physical goods. Service organisations must therefore adopt appropriate pricing strategies and tactics that reflect the value of the service, customer expectations, market conditions, and organisational objectives.

A well-designed pricing strategy not only generates revenue but also communicates the quality of the service, influences customer perceptions, and helps organisations gain a competitive advantage.

Meaning of Pricing Strategy and Tactics

A pricing strategy refers to the overall approach or plan adopted by an organisation to determine the price of its services to achieve specific business objectives such as profitability, market expansion, customer acquisition, or competitive positioning.

Pricing strategies provide a long-term direction for setting service prices and are generally aligned with the organisation's marketing objectives.

Pricing tactics are short-term pricing actions used by organisations to respond to changing market conditions, customer demand, competition, or seasonal variations. While pricing strategies establish the overall pricing framework, pricing tactics involve temporary adjustments that help organisations achieve immediate marketing objectives.

For example, offering a festive discount or an early-bird concession is a pricing tactic, whereas adopting a premium pricing strategy is a long-term pricing strategy.

Pricing Strategies for Services

1. Cost-Based Pricing

Under cost-based pricing, organisations determine the price of a service by calculating the total cost of providing the service and adding a desired profit margin. The objective is to ensure that all costs are recovered while earning a reasonable profit.

This strategy is simple to implement and is commonly used by educational institutions, healthcare providers, and professional service firms.

2. Value-Based Pricing

Value-based pricing focuses on the value perceived by customers rather than the cost of providing the service. Customers are willing to pay higher prices if they believe the service offers superior quality, convenience, or benefits.

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This strategy is widely adopted by premium hotels, luxury airlines, healthcare institutions, and consulting firms.

3. Competition-Based Pricing

In competition-based pricing, organisations determine service prices by considering the prices charged by competitors. The organisation may charge similar, lower, or higher prices depending on its market position and service quality.

This strategy is common in industries with intense competition, such as telecommunications, insurance, banking, and online education.

4. Penetration Pricing

Penetration pricing involves introducing a new service at a relatively low price to attract customers quickly and gain market share. Once the service becomes popular and a loyal customer base is established, prices may gradually increase.

This strategy is suitable when organisations seek rapid market acceptance or face strong competition.

5. Differential Pricing

Differential pricing, also known as price discrimination, involves charging different prices for the same service based on factors such as customer category, location, time, or service conditions.

This strategy enables organisations to maximise revenue by serving different market segments. For example, airlines charge different fares for economy, business, and first-class passengers, even though they travel on the same flight.

Pricing Tactics for Services

1. Discount Pricing

Organisations offer temporary reductions in service prices to attract customers, increase sales, or encourage repeat purchases. Discounts may be seasonal, promotional, or offered to specific customer groups such as students or senior citizens.

For example, a fitness centre may offer a 20% discount on annual memberships during New Year promotions.

2. Bundled Pricing

Bundled pricing involves combining two or more services into a single package and offering them at a lower price than if purchased separately. Bundling increases customer value and encourages customers to purchase additional services.

For example, a travel agency may offer a holiday package that includes transportation, accommodation, sightseeing, and meals at a single price.

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3. Promotional Pricing

Promotional pricing is used for a limited period to increase customer interest and stimulate demand. Organisations use promotional pricing during festivals, product launches, anniversaries, or special event

4. Psychological Pricing

Psychological pricing influences customers' perceptions by setting prices that appear more attractive.

For example, charging ₹999 instead of ₹1,000 makes the price appear significantly lower, even though the actual difference is minimal.

5. Dynamic Pricing

Dynamic pricing involves continuously adjusting service prices according to demand, customer behaviour, competition, or market conditions. Technology enables organisations to modify prices in real time.

For example, ride-hailing services such as Uber and Ola increase fares during peak hours or periods of high demand.

6. Loyalty Pricing

Organisations reward repeat customers by offering special prices, loyalty discounts, reward points, or exclusive membership benefits. Loyalty pricing encourages customer retention and strengthens long-term relationships.

For example, an airline may offer discounted fares or free upgrades to its frequent flyer members.

Table 2.1.1 Comparison between Pricing Strategies and Pricing Tactics

Basis of Comparison	Pricing Strategies	Pricing Tactics
Meaning	A long-term approach adopted to determine service prices in line with organisational objectives.	Short-term pricing actions taken to respond to changing market conditions or customer demand.

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Primary Objective	To achieve long-term goals such as profitability, market positioning and sustainable competitive advantage.	To increase sales, attract customers, respond to competitors, or boost demand during a specific period.
Time Horizon	Long-term.	Short-term or temporary.
Nature	Forms part of the overall marketing strategy.	Supports the pricing strategy through temporary price adjustments.
Decision Basis	Based on costs, customer value, competition, and organisational objectives.	Based on seasonal demand, promotional campaigns, customer response, or competitive actions.
Advantages	Ensures consistency in pricing, strengthens market positioning, and supports long-term profitability.	Provides flexibility, stimulates demand, attracts new customers, and helps respond quickly to market changes.
Limitations	May require periodic revision when market conditions change.	Excessive use may reduce perceived value or lead customers to expect frequent discounts.
Suitable Business Applications	Setting the pricing approach for hospitals, banks, educational institutions, hotels, airlines, and consulting firms.	Festive discounts, early-bird offers, loyalty rewards, promotional packages, and dynamic pricing used by retail, tourism, hospitality, airlines, and ride-hailing services.
Examples	Cost-based pricing, value-based pricing, competition-based pricing, penetration pricing, and differential pricing.	Discount pricing, bundled pricing, promotional pricing, psychological pricing, dynamic pricing, and loyalty pricing.

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2.1.2.3 Promotion of Service

Promotion is an essential element of the services marketing mix because it helps organisations communicate the value of their services to existing and potential customers. Unlike physical products, services are intangible and cannot be seen, touched, or tested before purchase. As a result, customers often experience uncertainty while choosing a

service provider. Effective promotional activities reduce this uncertainty by providing information about the service, building customer confidence, creating awareness, and encouraging customers to purchase the service.

Service organisations use a variety of promotional tools to inform customers about their offerings, persuade them to choose their services, and maintain long-term customer relationships. Therefore, promotion not only increases sales but also enhances the organisation's image and reputation.

Promotion of services refers to the process of communicating information about a service to target customers to create awareness, generating interest, influencing purchase decisions, and building long-term customer relationships.

Since services are intangible, promotional activities focus on demonstrating the benefits, quality, reliability, and value of the service rather than highlighting physical features.

Promotion Mix for Services

Service organisations use a combination of promotional tools, collectively known as the promotion mix, to communicate with customers.

1. Advertising

Advertising is a paid form of non-personal communication through various media such as television, newspapers, magazines, radio, websites, social media, and mobile applications. It helps organisations reach a large audience and create awareness about their services.

For example, hospitals advertise specialised healthcare services, while universities promote academic programmes through television, newspapers, and digital platforms.



Fig 2.1.2 Promotion Mix for Services

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2. Personal Selling

Personal selling involves direct interaction between organisational representatives and customers. Employees explain the features and benefits of the service, answer customer queries, and persuade customers to purchase the service.

This method is particularly effective for complex or high-value services such as insurance, banking, financial planning, real estate, and educational programmes.

3. Sales Promotion

Sales promotion consists of short-term incentives designed to encourage immediate purchase or increased usage of services. Common sales promotion techniques include discounts, coupons, free trials, gift vouchers, cashback offers, and loyalty rewards.

For example, a fitness centre may offer a one-month free membership or discounted annual subscription to attract new customers.

4. Public Relations

Public relations focus on developing and maintaining a positive relationship between the organisation and the public. It enhances the organisation's reputation through media coverage, press releases, community development programmes, sponsorships, corporate social responsibility (CSR) initiatives, and public events.

Positive public relations improve customer confidence and strengthen the organisation's credibility.

5. Direct Marketing

Direct marketing involves communicating directly with customers through emails, text messages, telephone calls, catalogues, or mobile applications. Organisations use customer databases to deliver personalised messages and promotional offers.

For example, banks frequently send personalised loan offers or credit card promotions through email and mobile applications.

6. Digital and Social Media Marketing

Digital marketing has become one of the most effective promotional methods for service organisations. Websites, search engines, social media platforms, blogs, online videos, influencer marketing, and mobile applications enable organisations to communicate with customers quickly and interactively.

Digital platforms allow organisations to reach a global audience while measuring the effectiveness of promotional campaigns in real time.

For example, hotels promote their services through Instagram, YouTube, Facebook, and online travel portals to attract travellers.

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Integrated Marketing Communication (IMC) in Services

Modern service organisations communicate with customers through multiple channels rather than relying on a single promotional tool. This coordinated approach is known as Integrated Marketing Communication (IMC).

Integrated Marketing Communication (IMC) refers to the process of planning, coordinating, and integrating all promotional activities to deliver a consistent, clear, and customer-focused message across different communication channels. IMC ensures that customers receive the same brand message regardless of whether they encounter it through television advertisements, social media, websites, mobile applications, email campaigns, or personal interactions with employees.

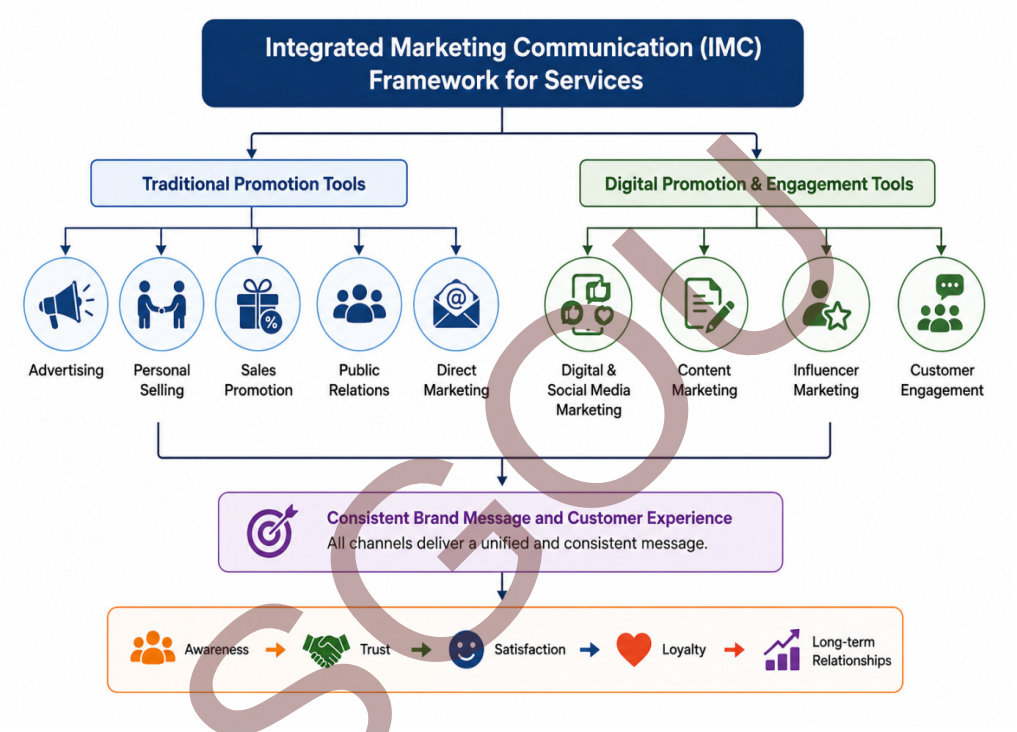


Fig 2.1.3 IMC Framework for Services

In services marketing, IMC combines traditional promotional tools such as advertising, personal selling, sales promotion, public relations, and direct marketing with digital marketing techniques, including social media marketing, content marketing, influencer marketing, and customer engagement initiatives. By integrating these communication methods, service organisations can strengthen their brand image, improve customer trust, and build long-term relationships.

2.1.2.4 Distribution Methods for Services

Distribution, also known as Place, is one of the key elements of the services marketing mix. It refers to the methods through which services are made available to customers at the right place and the right time. Unlike physical products, services cannot be stored

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or transported because they are intangible and are usually produced and consumed simultaneously. Therefore, the focus of service distribution is not on moving products but on ensuring that customers can conveniently access the service.

Advancements in technology have significantly transformed service distribution. In addition to traditional face-to-face delivery, organisations now use digital platforms, mobile applications, websites, self-service technologies, and online portals to provide services. Selecting an appropriate distribution method enables organisations to improve customer convenience, expand market reach, and enhance service quality.

Distribution methods for services refer to the various channels and mechanisms through which service organisations make their services accessible to customers. These methods determine where, when, and how customers receive the service.

Distribution Methods for Services

1. Direct Distribution

In direct distribution, the service provider delivers the service directly to the customer without involving intermediaries. The interaction takes place through the organisation's own facilities, employees, or digital platforms.

This method enables organisations to maintain better control over service quality, customer interactions, and brand image.

Example: A patient consulting a doctor at a hospital, a student attending classes at a university, or a customer visiting a bank branch.

2. Branch Network Distribution

Many service organisations establish branch offices at different locations to make their services easily accessible to customers. Branch networks help organisations serve customers across various geographical regions while maintaining consistent service standards.

Example: Banks, insurance companies, courier services, and educational institutions operate through multiple branches.

3. Online Distribution

Online distribution involves delivering services through websites, mobile applications, or digital platforms. Customers can access services anytime and from any location with an internet connection.

This method has become increasingly popular due to advances in digital technology and changing customer preferences.

Example: Internet banking, online education, telemedicine, online ticket booking, food delivery platforms, and e-commerce services.

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4. Self-Service Technologies

Self-service technologies allow customers to obtain services independently without direct assistance from employees. These technologies improve convenience, reduce waiting time, and lower operating costs.

Example: Automated Teller Machines (ATMs), self-check-in kiosks at airports, online railway ticket booking, self-service billing counters in supermarkets, and online banking portals.

5. Agent or Franchise Distribution

Some organisations provide services through authorised agents or franchisees instead of establishing their own service centres. These intermediaries deliver services according to the standards and guidelines established by the parent organisation.

This method enables rapid market expansion while reducing investment in infrastructure.

6. Home or On-Site Service Delivery

Certain services are delivered directly at the customer's location. Employees visit the customer's home, office, or business premises to provide the required service.

This method offers greater convenience, particularly for services requiring personal attention or specialised equipment.

Example: Home healthcare services, home appliance repairs, beauty and wellness services, pest control services, and home delivery of food.

The services marketing mix provides a comprehensive framework for designing, pricing, promoting, and delivering services that create value for customers and achieve organisational objectives. While the traditional marketing mix consists of Product, Price, Place, and Promotion, the unique characteristics of services require organisations to carefully adapt these elements to meet customer expectations and remain competitive. Effective product decisions ensure that services satisfy customer needs, appropriate pricing strategies reflect the value of the service and organisational goals, promotional activities communicate the benefits of the service and build customer confidence, and efficient distribution methods make services easily accessible to customers.

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These four elements are closely interrelated, and their effectiveness depends on how well they are integrated to deliver a consistent and satisfying customer experience. Organisations that successfully manage these elements are better able to attract customers, build strong brand relationships, improve customer satisfaction, and achieve sustainable growth. However, delivering superior service involves more than managing the traditional marketing mix. The quality of interactions between employees and customers, the efficiency of service delivery processes, and the physical environment in which services are delivered also significantly influence customers' perceptions and experiences. These additional dimensions of services marketing - People, Process, and Physical Evidence will be explored in the next unit to provide a complete understanding of the 7Ps of the Services Marketing Mix.

Recap

- The Services Marketing Mix is a framework that integrates marketing elements to help organisations design, price, promote, and deliver services that satisfy customer needs and achieve organisational objectives.
- The 7Ps of Services Marketing consist of Product, Price, Place, Promotion, People, Process, and Physical Evidence, with the first four constituting the traditional marketing mix and the remaining three forming the extended marketing mix.
- Product decisions involve designing and managing service quality, features, branding, customer support, and innovation to create customer value and gain a competitive advantage.
- Pricing strategies such as cost-based, value-based, competition-based, penetration, and differential pricing help organisations achieve long-term business objectives, while pricing tactics such as discounts, bundling, and promotional pricing address short-term marketing needs.
- Promotion of services helps create awareness, communicate service benefits, reduce customer uncertainty, build brand image, and encourage customers to purchase services.
- The promotion mix includes advertising, personal selling, sales promotion, public relations, direct marketing, and digital and social media marketing, which together help organisations effectively communicate with customers.

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- ◊ Distribution (Place) in services focuses on making services accessible to customers through appropriate delivery channels rather than transporting physical products.
- ◊ Service organisations use various distribution methods, including direct distribution, branch networks, online platforms, self-service technologies, agents or franchises, and home or on-site service delivery, to improve customer convenience and service accessibility.
- ◊ Effective management of Product, Price, Promotion, and Place enables organisations to enhance customer satisfaction, strengthen brand image, improve competitiveness, and achieve sustainable business growth.
- ◊ The traditional marketing mix provides the foundation for services marketing, while the extended marketing mix - People, Process, and Physical Evidence complements these elements by enhancing service delivery and customer experience.

Objective Questions

1. What is meant by the Services Marketing Mix?
2. Why was the traditional marketing mix extended from 4Ps to 7Ps in services marketing?
3. What is a product decision in services marketing?
4. What is the difference between a pricing strategy and a pricing tactic?
5. What is value-based pricing?
6. What is meant by the promotion of services?
7. Name any four tools included in the promotion mix for services.
8. What is meant by distribution (place) in services marketing?
9. Name any four distribution methods used by service organisations.
10. Why is the traditional marketing mix important in services marketing?

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Answers

1. The Services Marketing Mix is the combination of marketing elements that organisations use to design, price, promote, and deliver services in order to satisfy customer needs and achieve organisational objectives.

2. The traditional marketing mix was extended from 4Ps to 7Ps because services possess unique characteristics such as intangibility, inseparability, heterogeneity, and perishability, which require additional elements - People, Process, and Physical Evidence.

3. A product decision refers to the decisions made regarding the design, quality, features, branding, customer support, and innovation of a service to create customer value and achieve organisational goals.

4. A pricing strategy is a long-term approach to determining service prices, whereas a pricing tactic is a short-term pricing action used to respond to changes in demand, competition, or market conditions.

5. Value-based pricing is a pricing strategy in which the price of a service is determined based on the value perceived by customers rather than the cost of providing the service.

6. Promotion of services is the process of communicating information about a service to target customers to create awareness, generate interest, influence purchase decisions, and build long-term customer relationships.

7. Four tools included in the promotion mix are advertising, personal selling, sales promotion, and public relations.

8. Distribution (Place) in services marketing refers to the methods and channels through which services are made available to customers at the right place and the right time.

9. Four distribution methods used by service organisations are direct distribution, branch network distribution, online distribution, and self-service technologies.

10. The traditional marketing mix is important because it provides the foundation for planning service offerings, determining prices, communicating value to customers, and making services easily accessible, thereby contributing to customer satisfaction and organisational success.

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Self Assessment Questions

1. Why is the traditional marketing mix alone insufficient for marketing services? Explain with suitable reasons.
2. How do the characteristics of services influence product decisions made by service organisations?
3. Compare pricing strategies and pricing tactics. Why are both important for service organisations?
4. How does value-based pricing differ from cost-based pricing? Which strategy is more suitable for premium services?
5. Explain how promotion helps reduce customer uncertainty in services marketing.
6. Why should service organisations use an integrated promotion mix instead of relying on a single promotional tool?
7. How do technological advancements influence the distribution methods adopted by service organisations?
8. Compare direct distribution and online distribution. Under what circumstances is each method more appropriate?
9. Analyse how the four traditional elements of the services marketing mix - Product, Price, Place, and Promotion work together to create customer value.
10. A service organisation offers high-quality services but has poor pricing, promotion, and distribution strategies. How might this affect customer satisfaction and organisational performance?

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Assignments

1. The traditional marketing mix forms the foundation of services marketing. Analyse how the elements of Product, Price, Place, and Promotion work together to create customer value and achieve organisational objectives.
2. Pricing decisions have a significant influence on customer perceptions and organisational profitability. Analyse the various pricing strategies and tactics used by service organisations, highlighting their suitability in different business situations.

3. Promotion and distribution are critical for the success of service organisations because services are intangible and cannot be stored. Analyse how effective promotional strategies and appropriate distribution methods contribute to customer satisfaction and competitive advantage.

4. A service organisation intends to launch a new online healthcare consultation service. Analyse the product, pricing, promotion, and distribution decisions that should be considered to ensure the successful introduction and long-term success of the service.

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Unit - 2
Extended Marketing Mix in Services

Learning Outcomes

On completion of this unit, the learner will be able to:

- ◊ explain the concept of the Extended Marketing Mix and the significance of People, Physical Evidence, and Process in services marketing
- ◊ examine the roles of people, physical evidence, and service processes in delivering quality services and enhancing customer satisfaction
- ◊ analyse the characteristics of effective service processes and the influence of physical evidence and employee performance on customers' perceptions of service quality

Prerequisite

Shawn visits two fitness centres after deciding to start a regular workout routine. Both offer modern equipment, qualified trainers and similar membership plans. Yet, after visiting both, he immediately prefers one over the other.

At the first centre, the trainer understands his requirements and guides him patiently. The membership process is simple, the workout schedule is clearly organised and sessions begin on time. The centre is also clean, well-lit, and professionally maintained.

At the second centre, Shawn struggles to get assistance from the staff. Registration involves several unnecessary steps, sessions frequently start late and the facilities appear poorly maintained. Although the basic service offered by both centres is similar, Shawn's perception of their quality is not.

The answer lies in three important aspects of service delivery. People influence the service through their knowledge, behaviour and interaction with customers. The process determines how smoothly and consistently the service is delivered. Physical Evidence provides visible and tangible cues through the service envi-

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ronment, facilities, equipment and other physical elements.These three elements work together to shape customer perceptions and the overall service experience. Understanding People, Process and Physical Evidence therefore helps service organisations improve quality, increase customer satisfaction and develop stronger relationships with their customers.

Keywords

Extended Marketing Mix, People, Physical Evidence, Process, Service Quality, Customer Experience, Service Delivery, Customer Satisfaction, Service Process, Service Excellence

Discussion

2.2.1 Extended Marketing Mix in Services

The traditional marketing mix, comprising Product, Price, Place, and Promotion, provides the foundation for marketing both goods and services. However, services possess unique characteristics that distinguish them from tangible products. Services are intangible, inseparable from the service provider, heterogeneous in quality, and perishable in nature. These characteristics make the marketing of services more challenging than the marketing of physical goods.

Customers often evaluate a service not only by what is delivered but also by how it is delivered, who delivers it, and the environment in which it is delivered. Consequently, the traditional marketing mix is insufficient to address all aspects of service delivery. To overcome these limitations, marketing scholars recognised the need to include additional elements that directly influence customers' service experiences.

The Extended Marketing Mix adds three more elements - People, Process, and Physical Evidence to the traditional 4Ps. Together, these seven elements provide a comprehensive framework for planning, delivering, and managing services effectively. The extended marketing mix helps organisations enhance service quality, improve customer satisfaction, build long-term relationships, and gain a sustainable competitive advantage.

2.2.1.1 Need for the Extended Marketing Mix

The traditional marketing mix was originally developed for the marketing of tangible goods. Although it provides a useful framework, it does not fully address the distinctive characteristics of services. The following factors explain why the Extended Marketing

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Mix is necessary.

1. Intangible Nature of Services

Unlike physical products, services cannot be seen, touched, or tested before purchase. Customers therefore experience greater uncertainty while selecting a service provider. The additional elements of People, Process, and Physical Evidence help organisations build customer confidence by demonstrating service quality and professionalism.

2. Importance of Human Interaction

In many services, employees interact directly with customers throughout the service delivery process. The behaviour, attitude, competence, and communication skills of employees significantly influence customer satisfaction. Therefore, managing people becomes an essential aspect of services marketing.

3. Variability in Service Quality

Services are often delivered by different employees under different circumstances. As a result, service quality may vary from one customer to another. Clearly defined service processes and well-trained employees help organisations maintain consistency in service delivery.

4. Simultaneous Production and Consumption

Services are generally produced and consumed at the same time. Customers often participate in the service delivery process, making their experience dependent on both employee performance and operational procedures. Efficient processes ensure smooth and reliable service delivery.

5. Need to Build Customer Confidence

Since customers cannot physically evaluate a service before purchasing it, they rely on tangible cues such as the appearance of employees, office ambience, equipment, cleanliness, and organisational facilities. Physical evidence therefore plays an important role in shaping customer perceptions and reducing perceived risk.

6. Increasing Competition in the Service Sector

The rapid growth of the service sector has intensified competition among service providers. Organisations can no longer compete solely on price or promotional activities. Superior customer experiences, efficient processes, skilled employees, and professional service environments have become important sources of competitive advantage.

7. Focus on Customer Experience

Modern customers expect more than the successful completion of a service. They seek convenience, personalised attention, prompt service, comfortable surroundings, and positive interactions throughout the service encounter. The Extended Marketing Mix enables organisations to manage the entire customer experience rather than focusing only on the service itself.

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2.2.2 The Three Additional Ps

The Extended Marketing Mix introduces three additional elements that complement the traditional marketing mix.

- ◊ **People:** People include all individuals involved in delivering the service, such as employees, managers, customer service representatives, and even customers who participate in the service process. Their knowledge, behaviour, communication skills, appearance, and attitude significantly influence customers' perceptions of service quality.
- ◊ **Process:** Process refers to the procedures, activities, systems, and workflows through which services are delivered to customers. A well-designed process ensures that services are delivered efficiently, consistently, and conveniently while minimising delays and errors.
- ◊ **Physical Evidence:** Physical evidence consists of the tangible elements that customers can observe while experiencing a service. These include buildings, interiors, equipment, signage, employee appearance, brochures, uniforms, websites, and other physical facilities that help customers evaluate the quality of an otherwise intangible service.

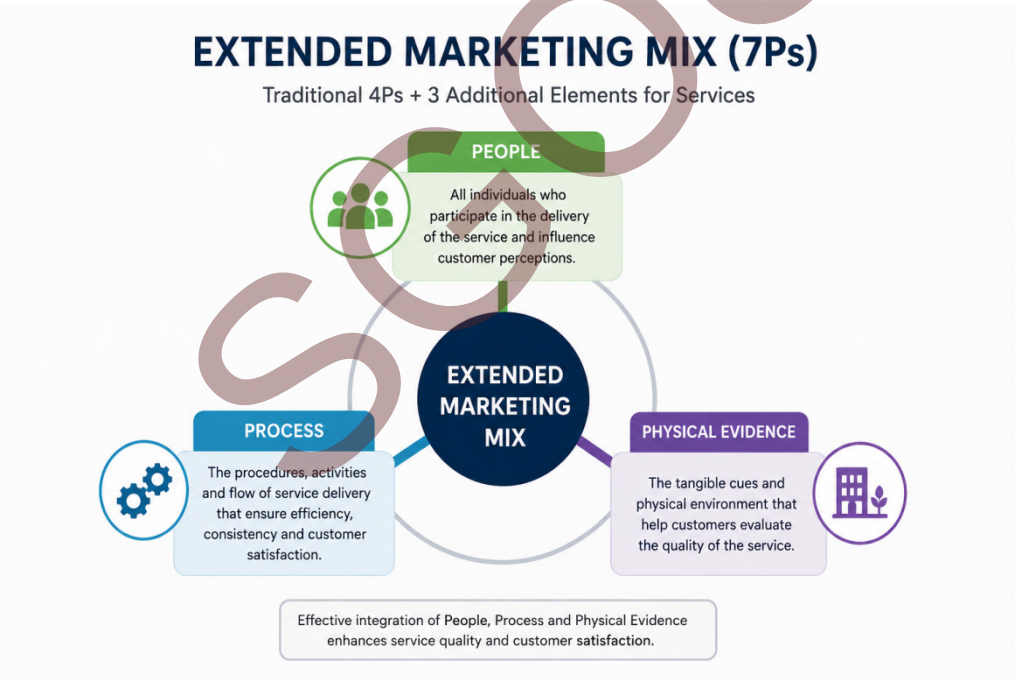


Fig 2.2.1 The three additional P's

The Extended Marketing Mix provides a comprehensive framework for improving service quality and enhancing customer satisfaction by incorporating three additional elements - People, Process, and Physical Evidence. Although these elements are closely interrelated and collectively influence customers' perceptions of a service, each

performs a distinct role in the service delivery process. To gain a better understanding of how service organisations create memorable customer experiences, it is important to examine each of these elements individually. The following sections discuss People, Physical Evidence, and Process in detail, highlighting their significance, functions, and contribution to effective service marketing.

2.2.2.1 People

Services are created and delivered through interactions between service providers and customers. Unlike physical products, where customers primarily evaluate the quality of the product itself, service customers often judge the organisation based on the behaviour, competence, appearance, and attitude of the people who provide the service. Every interaction between employees and customers influences customer perceptions, satisfaction, and loyalty.

For this reason, People are regarded as one of the most important elements of the extended marketing mix. It includes not only employees who directly interact with customers but also managers, support staff, and, in many cases, customers themselves, as they actively participate in the service delivery process. Well-trained, motivated, and customer-oriented employees play a crucial role in delivering high-quality services and creating positive customer experiences.

Importance of People in Services Marketing

1. Influence Customer Satisfaction

Employees interact directly with customers throughout the service delivery process. Friendly behaviour, prompt assistance, and professional communication create positive experiences, while poor interactions may result in dissatisfaction and customer complaints. Therefore, employee behaviour plays a major role in determining customer satisfaction.

2. Represent the Organisation

Employees serve as the public face of the organisation. Customers often judge the organisation by the way its employees communicate, behave, and respond to their needs. Professional and courteous employees help build a positive organisational image and strengthen customer trust.

3. Enhance Service Quality

Service quality depends not only on organisational systems but also on the competence and commitment of employees. Skilled and knowledgeable employees deliver services more efficiently, minimise errors, and provide effective solutions to customer problems.

4. Build Customer Relationships

Long-term customer relationships are often built through repeated positive interactions with employees. Customers are more likely to remain loyal to organisations where

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employees understand their needs, provide personalised services, and demonstrate genuine concern for their satisfaction.

5. Create Competitive Advantage

Competitors can easily imitate products, pricing strategies, and promotional campaigns. However, a highly motivated and customer-oriented workforce is difficult to replicate. Excellent employees therefore become a valuable source of sustainable competitive advantage.

6. Encourage Positive Word-of-Mouth

Satisfied customers frequently share their positive experiences with family, friends, and colleagues. Outstanding employee behaviour generates favourable word-of-mouth publicity, which helps attract new customers without significant promotional expenditure.

Roles of People in Service Delivery

1. Frontline Employees

Frontline employees interact directly with customers during service delivery. They answer customer queries, provide information, solve problems, process transactions, and ensure customer satisfaction.

Examples include bank tellers, hotel receptionists, airline cabin crew, hospital nurses, and retail sales executives.

2. Managers and Supervisors

Managers are responsible for planning, organising, supervising, and monitoring service delivery. They recruit employees, provide training, establish service standards, evaluate performance, and ensure that customer expectations are consistently met.

Effective leadership motivates employees and creates a customer-oriented organisational culture.

3. Support Staff

Support staff may not interact directly with customers, but they play an essential role in ensuring smooth service delivery. Their responsibilities include administration, technical support, maintenance, logistics, accounting, and information technology.

Efficient support staff contribute to service quality by enabling frontline employees to perform their duties effectively.

4. Customers

In many service industries, customers actively participate in the service delivery process. Their cooperation, communication, and behaviour influence both the efficiency of service delivery and the experiences of other customers.

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For example, patients must provide accurate medical information to doctors, students must actively participate in classroom learning, and passengers must follow airline safety instructions.

Managing People in Services Marketing

Delivering high-quality services requires organisations to effectively manage their employees. Since employees directly influence customer experiences, organisations must create a work environment that motivates them to deliver consistent and customer-oriented services. Some important aspects of managing service employees are discussed below.

1. Internal Marketing

Internal marketing refers to treating employees as internal customers and ensuring that they are well-informed, motivated, and equipped to deliver quality services. Organisations achieve this through recruitment, training, communication, motivation, and performance recognition. Employees who understand the organisation's vision and service standards are more likely to satisfy external customers.

2. Employee Engagement

Employee engagement refers to the emotional commitment and involvement of employees in their work and the organisation. Engaged employees are enthusiastic, responsible, and willing to provide better service. Organisations encourage employee engagement by recognising achievements, offering career development opportunities, maintaining open communication, and creating a positive work environment.

3. Emotional Intelligence

Emotional intelligence is the ability to understand and manage one's own emotions while recognising and responding appropriately to the emotions of others. In services marketing, emotionally intelligent employees communicate effectively, handle customer complaints calmly, resolve conflicts, and build positive relationships with customers. This contributes to higher customer satisfaction and service quality.

4. Employee Empowerment

Employee empowerment involves giving employees the authority and confidence to make appropriate decisions while serving customers. Empowered employees can resolve customer issues promptly without waiting for managerial approval, resulting in faster service, improved customer satisfaction, and greater employee confidence.

5. Service Culture

Service culture refers to an organisational environment in which delivering excellent customer service is regarded as a shared responsibility. In a strong service culture, employees are encouraged to be customer-focused, maintain ethical behaviour, work collaboratively, and continuously improve service quality. Such a culture enhances customer satisfaction and helps build long-term customer relationships.

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2.2.2.2 Physical Evidence

Services are intangible in nature, which means customers cannot see, touch, or examine them before making a purchase decision. This creates uncertainty about the quality and reliability of the service. To overcome this challenge, service organisations provide various tangible cues that help customers form impressions about the service and the organisation. These tangible cues are collectively known as physical evidence.

Physical evidence includes everything that customers can observe before, during, and after the service encounter. It ranges from the appearance of the service premises and equipment to employee uniforms, brochures, websites, signage, and even the cleanliness of the environment. These elements create the first impression of the organisation and significantly influence customers' perceptions of service quality.

Elements of Physical Evidence

1. Service Environment

The service environment refers to the physical surroundings where the service is delivered. It includes the building, interior design, furniture, lighting, temperature, cleanliness, seating arrangements, and overall ambience. A clean, comfortable, and well-maintained environment creates a positive first impression and enhances customer confidence.

For example, a modern hospital with hygienic surroundings and well-organised facilities reassures patients about the quality of healthcare services.

2. Equipment and Facilities

The equipment and facilities used during service delivery also form part of physical evidence. Modern, functional, and well-maintained equipment reflects the organisation's commitment to quality.

Examples include medical equipment in hospitals, computers in banks, laboratory facilities in educational institutions, and fitness equipment in gyms.

3. Employee Appearance

The appearance of employees significantly influences customers' perceptions of professionalism and service quality. Clean uniforms, proper grooming, identification badges, and professional behaviour create trust and confidence among customers.

For example, airline cabin crew wearing well-designed uniforms project professionalism and reliability.

4. Signage and Displays



Signboards, directional signs, information boards, digital displays, and display panels help customers navigate service facilities easily. Clear signage reduces confusion, improves convenience, and

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contributes to a positive customer experience. For example, airports use digital display boards and directional signs to guide passengers efficiently.

5. Printed and Digital Materials

Brochures, catalogues, visiting cards, invoices, receipts, menus, websites, and mobile applications also serve as physical evidence. Professionally designed communication materials strengthen the organisation's image and provide customers with useful information about the service.

6. Brand Symbols

Brand names, logos, slogans, colours, and packaging elements contribute to the physical identity of the organisation. Strong and consistent branding helps a customer recognise the organisation and creates a positive brand image.



For example, the distinctive golden arches of McDonald's or the red logo of Coca-Cola instantly identify the respective brands.

Importance of Physical Evidence

1. Reduces Customer Uncertainty

Since customers cannot evaluate a service before purchasing it, they rely on physical evidence to assess its likely quality. Attractive facilities, professional employees, and modern equipment reduce uncertainty and increase customer confidence.

2. Creates a Positive First Impression

The first impression often determines whether customers decide to use a service. A well-maintained physical environment creates favourable perceptions and encourages customers to engage with the organisation.

3. Enhances Service Quality Perception

Customers often associate the quality of physical facilities with the quality of the service itself. Modern infrastructure, comfortable surroundings, and attractive interiors strengthen customers' perceptions of service excellence.

4. Strengthens Brand Image

Consistent physical evidence reinforces the organisation's brand identity and differentiates it from competitors. Attractive logos, well-designed offices, and professional communication materials improve brand recognition and credibility.

5. Improves Customer Satisfaction

A comfortable waiting area, clean surroundings, clear signage, and efficient facilities

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contribute to a pleasant customer experience, leading to higher satisfaction and repeat purchases.

6. Supports Employee Performance

A well-designed physical environment not only benefits customers but also improves employee productivity. Comfortable workspaces, modern equipment, and organised facilities enable employees to perform their duties more efficiently.

Servicescape

The term servicescape, introduced by Mary Jo Bitner (1992), refers to the physical environment in which a service is delivered and experienced. It includes all the tangible surroundings that customers encounter before, during, and after receiving a service. A well-designed servicescape creates a positive impression, enhances customer comfort, and influences customers' perceptions of service quality.

The servicescape consists of several elements that shape customer experiences:

1. Ambience

Ambience refers to the overall atmosphere of the service environment. Factors such as lighting, temperature, music, cleanliness, air quality, and fragrance contribute to the ambience. A pleasant ambience makes customers feel comfortable and encourages them to spend more time in the service facility.

2. Layout and Design

The layout refers to the arrangement of furniture, equipment, service counters, waiting areas, and walkways. A well-planned layout enables customers to move around easily, reduces waiting time, and improves service efficiency. For employees, an organised layout facilitates smoother service delivery.

3. Signage

Signage includes direction boards, information displays, symbols, and instructional notices that help customers navigate the service environment. Clear and visible signage reduces confusion, improves convenience, and enhances the overall customer experience.

4. Colours and Visual Design

Colours, interior decor, logos, and visual themes influence customers' emotions and perceptions. For example, hospitals often use light colours to create a calm atmosphere, while restaurants may use warm colours to create an inviting environment. A consistent visual design also strengthens the organisation's brand identity.

5. Sensory Elements

Sensory elements appeal to customers' five senses - sight, sound, smell, touch, and, in some services, taste. Pleasant music, comfortable seating, appropriate lighting, fresh

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fragrance, and attractive interiors create positive sensory experiences that enhance customer satisfaction and encourage repeat visits.

Influence of Servicescape on Customer Behaviour

A well-designed servicescape influences customer behaviour in several ways. It creates a favourable first impression, reduces anxiety, enhances perceptions of service quality, and increases customer satisfaction. Customers are more likely to spend time, make repeat visits, and recommend the service to others when they experience a comfortable and attractive service environment. Similarly, an efficient servicescape supports employees by providing a safe, organised, and pleasant workplace, leading to better service delivery.

2.2.2.3 Process

In service organisations, delivering a high-quality service depends not only on competent employees and a favourable physical environment but also on the procedures through which the service is provided. Customers expect services to be delivered efficiently, consistently, and without unnecessary delays or complications. If service delivery is poorly organised, even well-trained employees and excellent facilities may fail to satisfy customers. Therefore, organisations must design systematic procedures that ensure smooth and reliable service delivery.

The process element of the extended marketing mix focuses on the sequence of activities, procedures, and systems involved in delivering a service. An efficient service process minimises waiting time, reduces errors, improves operational efficiency, and enhances customer satisfaction. Consequently, process has become an essential element of services marketing in today's competitive business environment.

Characteristics of an Effective Service Process

An effective service process is essential for delivering high-quality services consistently and efficiently. It ensures that every stage of service delivery is well planned, customer-focused, and aligned with organisational objectives. A well-designed process not only improves operational efficiency but also enhances customer satisfaction by providing reliable and seamless service experiences. The major characteristics of an effective service process are discussed below.

1. Customer-Oriented

An effective service process is designed with the customer at its centre. Every stage of the process should aim to meet customer needs, expectations, and preferences. The procedures should be simple, convenient, and user-friendly so that customers can easily access and use the service. A customer-oriented process enhances satisfaction by minimising inconvenience and creating a positive service experience.

For example, many hospitals now provide online appointment booking systems that allow patients to schedule consultations without visiting the hospital, making the

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service more convenient.

2. Consistent

Consistency is a key characteristic of an effective service process. Customers expect the same level of service quality every time they interact with an organisation. Standardised procedures ensure that services are delivered uniformly regardless of the employee, branch, or time of service delivery. Consistency builds customer confidence and strengthens the organisation's reputation for reliability.

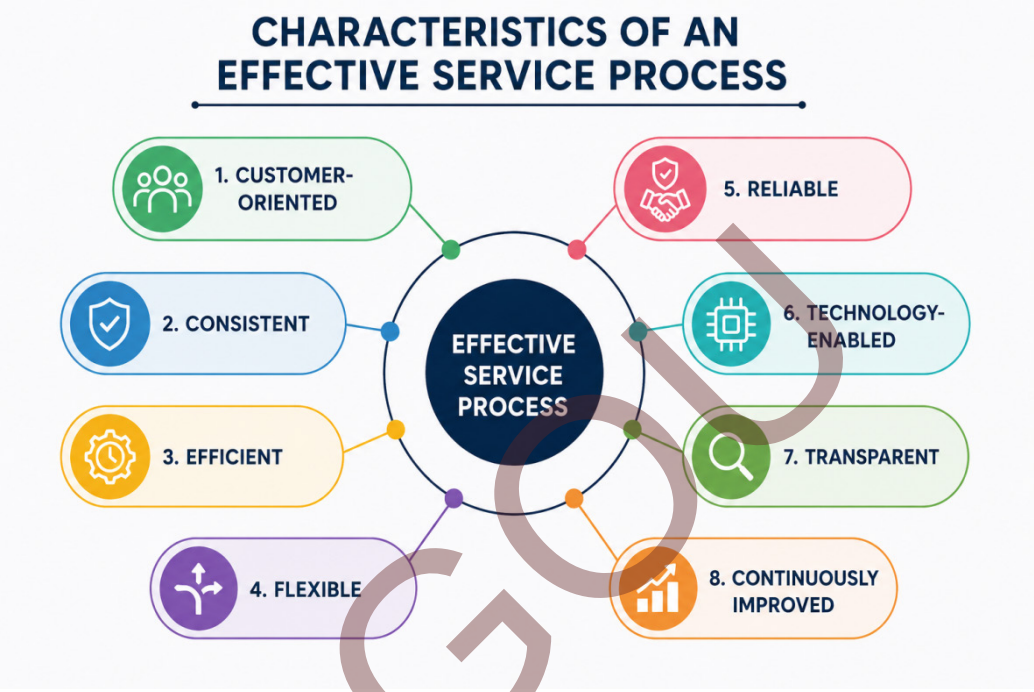


Fig 2.2.2 Characteristics of an Effective Service Process

3. Efficient

An efficient service process makes optimum use of available resources while delivering services promptly and accurately. It eliminates unnecessary steps, reduces waiting time, avoids duplication of work, and improves productivity. Efficient processes enable organisations to reduce operational costs while providing faster and more satisfactory services to customers.

For example, self-check-in kiosks at airports reduce waiting time and enable passengers to complete the check-in process quickly.

4. Flexible

Although service processes should follow standard procedures, they should also be flexible enough to accommodate different customer needs and unexpected situations. Flexibility enables employees to make appropriate adjustments without compromising service quality. This is particularly important in service industries where customer requirements may vary significantly.

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For example, a hotel may allow early check-in or late check-out depending on room availability and customer requirements.

5. Reliable

Reliability refers to the ability of the service process to deliver the promised service accurately and within the expected time. Customers should be able to trust that the organisation will consistently fulfil its commitments. Reliable processes minimise errors, delays, and service failures, thereby increasing customer confidence and satisfaction.

For example, an online banking system that processes fund transfers accurately and immediately demonstrates a reliable service process.

6. Technology-Enabled

Modern service organisations increasingly rely on technology to improve the speed, accuracy, and convenience of service delivery. Technology-enabled processes incorporate digital platforms, mobile applications, online payment systems, automated notifications, self-service technologies, and artificial intelligence to enhance operational efficiency and customer experience.

For example, food delivery platforms allow customers to place orders, track deliveries in real time, and make digital payments through a single mobile application.

7. Transparent

An effective service process should be transparent, allowing customers to understand the various stages involved in service delivery. Clear communication regarding procedures, timelines, costs, and responsibilities helps reduce customer uncertainty and builds trust in the organisation. Transparency also minimises misunderstandings and improves customer confidence.

For example, courier companies provide shipment tracking systems that allow customers to monitor the progress of their deliveries at every stage.

8. Continuously Improved

An effective service process is not static; it is continuously monitored and improved based on customer feedback, employee suggestions, technological advancements, and changing market conditions. Organisations regularly evaluate their service processes to identify inefficiencies, remove unnecessary activities, and introduce innovations that enhance service quality and operational performance.

Customer Journey Mapping

A Customer Journey Map (CJM) is a visual representation of the sequence of interactions between a customer and a service organisation from the beginning to the end of the service experience. It helps organisations understand the customer's experience at each stage of service delivery, identify potential problems, and improve the overall service process.

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A customer journey map generally includes three components:

- ◊ **Customer Actions** – Activities performed by the customer while receiving the service.
- ◊ **Employee Interactions** – Interactions between customers and frontline employees during service delivery.
- ◊ **Support Processes** – Back-end activities that support service delivery but are usually not visible to customers.

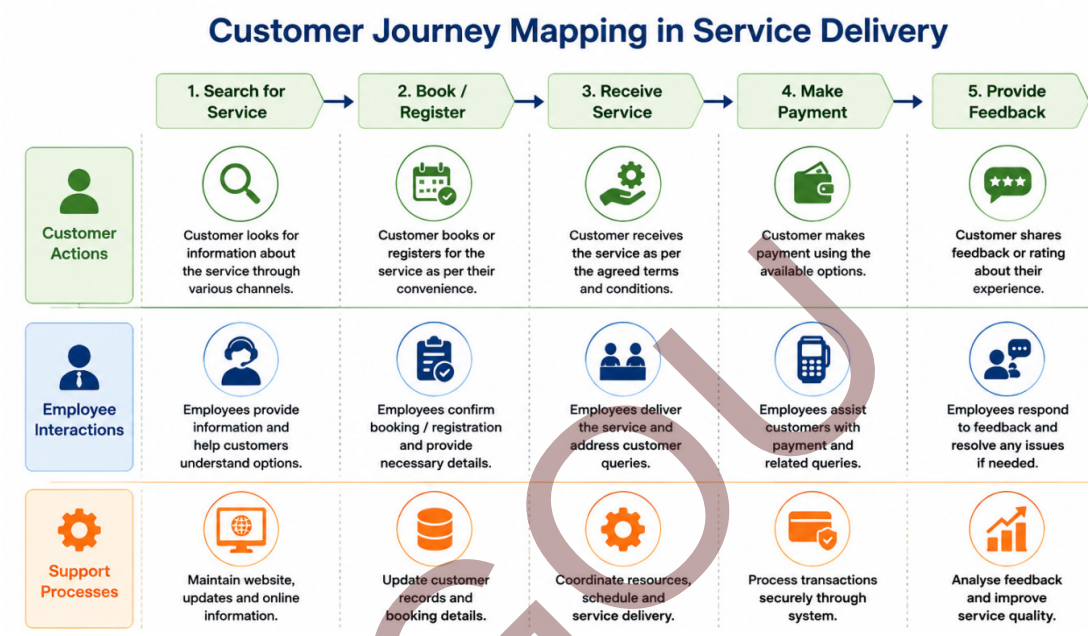


Fig 2.2.3 Customer Journey Mapping

By analysing each stage of the customer journey, organisations can reduce waiting time, eliminate service failures, improve customer satisfaction, and deliver a more consistent service experience.

Challenges in Managing Service Processes

Managing service processes is essential for delivering high-quality and consistent services. However, organisations often encounter several challenges while designing, implementing, and improving service processes. These challenges arise due to the unique characteristics of services, changing customer expectations, technological advancements, and operational complexities. The major challenges in managing service processes are discussed below.

1. Maintaining Consistency in Service Delivery

One of the biggest challenges is ensuring that customers receive the same quality of service every time they interact with the organisation. Since services are often delivered by different employees at different locations and times, variations in employee

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performance may lead to inconsistent service experiences. Maintaining uniform service standards across all service encounters requires well-defined procedures, regular training, and effective supervision.

2. Managing Customer Expectations

Customers today expect quick, convenient, and high-quality services. Their expectations continue to evolve due to technological advancements and changing market trends. Service organisations must continuously review and improve their processes to meet these rising expectations. Failure to do so may result in customer dissatisfaction and loss of business.

3. Adapting to Technological Changes

Rapid technological developments have transformed the way services are delivered. Organisations must regularly update their service processes by adopting new technologies such as automation, artificial intelligence, cloud computing, and mobile applications. Integrating these technologies with existing systems often requires substantial financial investment, employee training, and organisational change, making it a challenging task.

4. Employee Resistance to Change

Introducing new service processes or technologies often requires employees to change their existing work practices. Some employees may resist these changes due to fear of additional responsibilities, lack of technical knowledge, or uncertainty about new systems. Such resistance can delay implementation and reduce the effectiveness of process improvements. Organisations must therefore provide adequate training, communication, and support to encourage employee acceptance.

5. Coordinating Multiple Departments

Service delivery frequently involves collaboration among different departments such as marketing, operations, customer service, finance, and information technology. Poor coordination or communication between these departments can create delays, duplication of work, and inconsistencies in service delivery. Ensuring effective coordination across departments is therefore a major challenge in managing service processes.

6. Controlling Operational Costs

Improving service processes often requires investments in technology, employee training, infrastructure, and quality management systems. While these improvements enhance service quality, they also increase operational costs. Organisations must therefore balance the need for process improvement with financial constraints to maintain profitability.

7. Managing Digital Transformation

Many service organisations are adopting digital technologies to improve efficiency and customer experience. However, transforming traditional service processes into

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digital systems requires significant investment, employee training, and changes in organisational practices. Ensuring that digital solutions are user-friendly and accessible to all customers is also a major challenge.

8. Adopting Artificial Intelligence (AI) and Automation

Artificial intelligence (AI) and automation have become increasingly important in service delivery. AI-powered chatbots, virtual assistants, recommendation systems, and automated self-service technologies help organisations provide faster and more efficient services. However, implementing these technologies requires financial investment, technical expertise, and regular monitoring. Organisations must also balance automation with human interaction, as many customers still prefer personal assistance for complex service requirements.

9. Ensuring Effective Service Recovery

Despite careful planning, service failures such as delays, incorrect transactions, or technical problems may occur. Effective service recovery involves identifying service failures promptly, responding to customer complaints, offering appropriate solutions, and restoring customer confidence. Poor service recovery can damage the organisation's reputation and reduce customer loyalty.

10. Ensuring Cybersecurity and Data Privacy

As service delivery increasingly relies on digital platforms, organisations collect and store large volumes of customer information. Protecting this data from cyberattacks, unauthorised access, and data breaches has become a major challenge. Organisations must implement appropriate cybersecurity measures and comply with data protection regulations to maintain customer trust.

11. Integrating Omnichannel Service Delivery

Customers today expect seamless service across multiple channels, such as physical branches, websites, mobile applications, social media, email, and telephone. Integrating these channels so that customers receive consistent information and uninterrupted service is a significant challenge. Effective omnichannel service integration enhances customer convenience, improves service quality, and strengthens customer relationships.

2.2.3 Integration of All Three Elements

The true strength of the Extended Marketing Mix lies in the effective integration of People, Physical Evidence, and Process. These three elements do not function independently; rather, they complement one another to create a seamless and satisfying service experience. Competent and customer-oriented employees (People) deliver services through well-designed and efficient procedures (Process) within a clean, comfortable, and professionally managed environment (Physical Evidence). When these elements are properly aligned, organisations can provide consistent, reliable, and high-quality services that meet or exceed customer expectations.

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The integration of these elements enhances operational efficiency, reduces service errors, strengthens customer trust, and improves overall service quality. Customers are more likely to perceive the organisation positively when they interact with knowledgeable employees, experience smooth and hassle-free service procedures, and observe a well-maintained physical environment. Such positive experiences encourage customer satisfaction, repeat patronage, and favourable word-of-mouth recommendations.

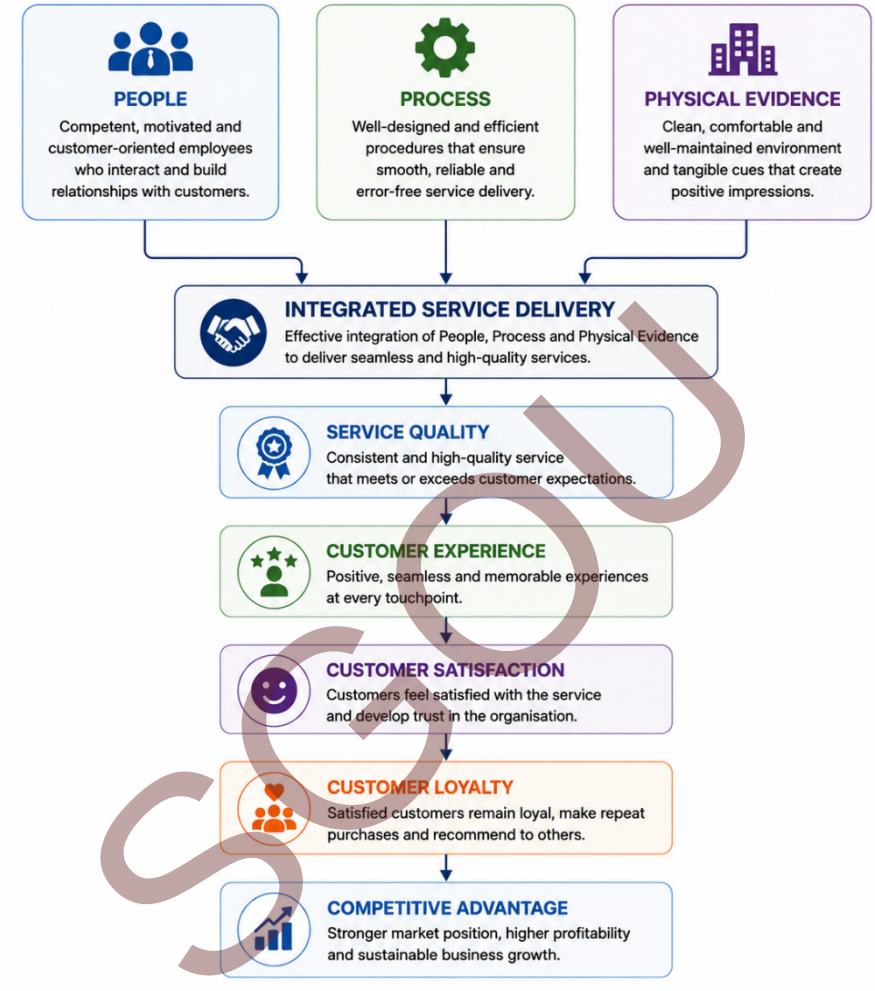


Fig 2.2.4 Integration of People, Process and Physical Evidence

For example, in a premium hotel, courteous and well-trained employees provide personalised assistance to guests (People), elegant interiors, comfortable rooms, and modern facilities create an inviting atmosphere (Physical Evidence), while efficient reservation, check-in, housekeeping, dining, and billing procedures ensure a smooth and convenient stay (Process). The successful integration of these three elements creates a memorable customer experience, enhances the hotel's reputation, and contributes to long-term customer loyalty and competitive advantage.

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Recap

- ◊ The Extended Marketing Mix expands the traditional marketing mix by incorporating People, Physical Evidence, and Process to address the unique characteristics of services and improve service delivery.
- ◊ The extended marketing mix is necessary because services are intangible, inseparable, heterogeneous, and perishable, making customer experience a critical aspect of services marketing.
- ◊ People play a vital role in services marketing, as employees, managers, support staff, and even customers influence service quality, customer satisfaction, and organisational reputation through their interactions.
- ◊ Competent employees contribute to service excellence by delivering quality services, building customer relationships, creating a positive organisational image, and generating customer loyalty and positive word-of-mouth.
- ◊ Physical Evidence provides tangible cues that help customers evaluate the quality of an otherwise intangible service. Service facilities, equipment, employee appearance, signage, and branding significantly influence customer perceptions.
- ◊ Well-managed physical evidence reduces customer uncertainty, creates favourable first impressions, strengthens brand image, and enhances both customer satisfaction and employee performance.
- ◊ Process refers to the sequence of activities and procedures through which services are delivered. An effective service process should be customer-oriented, consistent, efficient, flexible, reliable, technology-enabled, transparent, and continuously improved.
- ◊ Service organisations face challenges in managing processes, including maintaining consistency, adapting to technological changes, managing customer expectations, coordinating multiple departments, overcoming employee resistance to change, and controlling operational costs.
- ◊ The effective integration of People, Physical Evidence, and Process creates seamless service experiences, improves operational efficiency, enhances customer trust, and contributes to superior service quality.
- ◊ The extended marketing mix enables organisations to deliver service excellence, strengthen customer relationships, achieve sustainable competitive advantage, and create long-term value for both customers and the organisation.

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Objective Questions

1. What is meant by the Extended Marketing Mix in services marketing?
2. Why was the Extended Marketing Mix introduced in services marketing?
3. What are the three additional elements of the Extended Marketing Mix?
4. What is meant by People in services marketing?
5. Why are employees considered an important element of the Extended Marketing Mix?
6. What is meant by Physical Evidence in services marketing?
7. What is Process in services marketing?
8. Mention any four characteristics of an effective service process.
9. Name any four challenges in managing service processes.
10. Why is it important to integrate People, Physical Evidence, and Process in service organisations?

Answers

1. The Extended Marketing Mix is the expansion of the traditional marketing mix by adding People, Process, and Physical Evidence to address the unique characteristics of services and improve service delivery.
2. The Extended Marketing Mix was introduced because services are intangible, inseparable, heterogeneous, and perishable, making the traditional 4Ps insufficient for managing service quality and customer experience.
3. The three additional elements of the Extended Marketing Mix are People, Physical Evidence, and Process.
4. People in services marketing refer to all individuals involved in delivering or consuming a service, including employees, managers, support staff, and customers, whose interactions influence service quality and customer satisfaction.

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5. Employees are considered an important element because their knowledge, behaviour, communication skills, and professionalism directly influence customer satisfaction, service quality, and the organisation's reputation.

6. Physical Evidence refers to the tangible elements associated with a service, such as buildings, equipment, employee appearance, signage, and other physical facilities that help customers evaluate service quality.

7. Process is the sequence of activities, procedures, and systems through which a service is delivered efficiently and consistently to customers.

8. Four characteristics of an effective service process are customer orientation, consistency, efficiency, and reliability.

9. Four challenges in managing service processes are maintaining consistency in service delivery, managing customer expectations, adapting to technological changes, and controlling operational costs.

10. Integrating People, Physical Evidence, and Process is important because it ensures consistent service delivery, enhances customer satisfaction, strengthens customer trust, and contributes to service excellence and competitive advantage.

Self Assessment Questions

1. Why is the traditional marketing mix considered inadequate for marketing services? How does the Extended Marketing Mix overcome these limitations?

2. Explain the role of People in influencing customer satisfaction and the overall service experience.

3. How do frontline employees, managers, support staff, and customers collectively contribute to effective service delivery?

4. Why is Physical Evidence important in services marketing, even though services are intangible?

5. Explain how the physical environment of a service organisation influences customers' perceptions of service quality.

6. Discuss the characteristics of an effective service process. How do these characteristics contribute to service excellence?

7. What challenges do organisations face in managing service processes, and how can these challenges affect service quality?

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8. Explain how technological advancements have improved service processes in modern service organisations.
9. Analyse how People, Physical Evidence, and Process work together to create a positive customer experience.
10. A service organisation has modern facilities but poorly trained employees and inefficient service procedures. How would this affect customer satisfaction and organisational performance?

Assignments

1. The Extended Marketing Mix is essential for delivering superior service experiences. Analyse how the elements of People, Physical Evidence, and Process collectively contribute to service quality, customer satisfaction, and organisational success.
2. Employees are considered the most valuable resource in service organisations. Analyse the role of People in influencing customer perceptions, building customer relationships, and creating a sustainable competitive advantage.
3. Physical Evidence and Process play a crucial role in reducing customer uncertainty in service organisations. Analyse how these two elements influence customers' perceptions of service quality and contribute to service excellence, using suitable examples.
4. A private hospital has highly qualified doctors but receives frequent customer complaints regarding long waiting times, poor coordination among departments, and inadequate physical facilities. Analyse the situation using the concepts of People, Physical Evidence, and Process, and suggest suitable measures to improve the overall service experience.

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Suggested Reading

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BLOCK - 03



Customer Behaviour in Services Marketing

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Unit - 1
Understanding Customer Behaviour in Services

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the meaning, process, and distinctive characteristics of customer behaviour in services
- ◊ differentiate customer behaviour relating to services from customer behaviour relating to physical goods
- ◊ analyse customer expectations, service costs, and the factors influencing customers' evaluation of service experiences
- ◊ evaluate the role of customer perception, employee behaviour, physical evidence, technology, and other internal and external factors in determining customer satisfaction

Prerequisite

Think about the last time you had to choose between two banks, restaurants, hospitals, online shopping platforms, mobile service providers, or travel services. You may have compared several factors before making the decision. Price may have been important, but you might also have considered convenience, reputation, reviews, previous experience, location, staff behaviour, waiting time, safety, or the recommendations of friends and family.

The reasons for choosing a particular service can vary from one person to another. For example, one customer may select a restaurant because of its affordable price, while another may prefer it because of its ambience and quality of service. Similarly, a student choosing an educational institution may consider course content, faculty, placement opportunities, fees, facilities, and reputation. Thus, customers do not make service decisions based on a single factor.

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The decision does not end with purchase. After using the service, customers form an opinion based on whether their experience was satisfactory. A positive experience may encourage them to use the service again and recommend it to others, while a negative experience may lead them to complain, switch to another provider, or share their dissatisfaction.

These everyday experiences show that understanding customers requires attention to what they need, what they expect, how they make decisions, what they experience, and how they evaluate the service afterwards. A clear understanding of these aspects provides a foundation for studying customer behaviour in service marketing.

Keywords

Customer Behaviour, Customer Expectations, Zone of Tolerance, Service Costs, Customer Perception

Discussion

3.1.1 Introduction

Two business executives, Arun and Vivek, book rooms in the same four-star hotel for an official conference. Both pay the same tariff, stay in similar rooms, and receive identical facilities. However, when they check out, their opinions differ considerably. Arun writes an online review stating: "The hotel exceeded my expectations. The receptionist welcomed me with a smile, check-in took only three minutes, the room was clean, and the staff immediately responded whenever I requested assistance. I will definitely stay here again." Vivek writes: "The room was comfortable, but the receptionist appeared indifferent, room service took nearly forty minutes, and no one apologised for the delay. I expected much better service."

Interestingly, the core service (hotel accommodation) remained the same for both customers. Yet their overall evaluations were completely different because they assessed not only the room but also the entire service experience.

This illustration demonstrates that customers judge services based on both functional quality (what is delivered) and process quality (how it is delivered). Their behaviour is influenced by expectations, employee interactions, waiting time, communication, the physical environment, and emotional experiences. Understanding these behavioural differences helps service organisations improve customer satisfaction and develop long-term relationships.

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3.1.2 Customer Behaviour in Services Marketing

Customer behaviour encompasses the activities, decisions, attitudes, and psychological processes customers exhibit before, during, and after purchasing and consuming a service. This includes recognising a need, searching for information, evaluating alternatives, choosing a service provider, experiencing the service, evaluating satisfaction, and deciding whether to continue the relationship. Unlike physical products, services are intangible, inseparable from the service provider, variable in quality, and perishable. These characteristics make customer behaviour in services more complex than customer behaviour in goods.

For instance, before purchasing a laptop, a customer can compare specifications, examine the design, and even test its performance in a showroom. In contrast, a patient cannot experience a medical service in advance when selecting a hospital for surgery. Instead, the patient relies on the hospital's reputation, doctors' qualifications, online reviews, recommendations from relatives, and previous experiences. Thus, service purchase decisions involve a greater degree of uncertainty and perceived risk.

Customer behaviour in services encompasses all the cognitive (thinking), emotional (feeling), and behavioural (actions) responses customers display while interacting with service organisations.

3.1.2.1 Definitions of Customer Behaviour

Scholars have defined consumer and customer behaviour from different perspectives. The following definitions are widely accepted in marketing literature.

According to Schiffman and Kanuk (2019), "Consumer behaviour refers to the behaviour that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs." This definition highlights that consumer behaviour is a continuous process, beginning before purchase and continuing even after consumption.

Solomon (2023) defines consumer behaviour as "the study of the processes involved when individuals or groups select, purchase, use, or dispose of products, services, ideas, or experiences to satisfy needs and desires." Solomon emphasises that customer behaviour includes not only purchasing but also the entire consumption experience.

According to Zeithaml, Bitner and Gremler, understanding customer behaviour helps service firms identify customer expectations, improve service quality, and build long-term customer relationships through superior service experiences. Their work highlights that customer behaviour in services is greatly influenced by expectations, perceptions, satisfaction, trust, and relationship quality.

Lovelock and Wirtz explain that customer behaviour in services involves the decisions customers make before purchasing a service, their participation during service delivery, and their evaluation of the service after consumption. Their approach recognises customers as active participants rather than passive buyers.

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From the above definitions, customer behaviour in services marketing can be understood as the study of how individuals or organisations identify service needs, search for information, evaluate alternatives, purchase, experience, evaluate, and respond to services before, during, and after consumption.

3.1.2.2 Customer Behaviour in Services

Customer behaviour in services is much broader than merely purchasing a service. Customers engage in a sequence of activities that begins long before the actual service encounter and continues long after the service has been consumed.

Process of Customer Behaviour in Services

1. Need Recognition

Need recognition is the initial stage where a customer identifies a need or problem that requires a service. This need may stem from personal circumstances or external factors like advertisements or recommendations.

Example: A student recognises the need for an online coaching class after finding it difficult to prepare for competitive examinations independently.

2. Information Search

Once a need is recognised, the customer searches for information about available service providers. This information can be gathered from family, friends, online reviews, social media, company websites, or previous experience.

Example: A family planning a holiday compares different travel agencies by reading Google reviews and visiting their websites before making a choice.

3. Evaluation of Alternatives

The customer then compares various service providers based on factors such as price, quality, reputation, convenience, customer reviews, and additional benefits. As services cannot be examined before purchase, customers rely heavily on available information and trust.

Example: A patient compares two hospitals by considering doctors' qualifications, treatment costs, waiting times, and patient feedback before selecting one.

4. Purchase Decision

After evaluating the alternatives, the customer selects a service provider and decides to purchase the service. However, the final decision may still be influenced by discounts, availability, convenience, or recommendations from others.

Example: A customer books a hotel through an online travel portal because it offers a special discount and free cancellation.

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5. Service Experience

This stage involves the actual consumption of the service, during which the customer interacts with employees, technology, and the service environment. The quality of this experience significantly influences customer satisfaction.

Example: During a restaurant visit, the customer experiences the quality of food, staff behaviour, cleanliness, and speed of service.

6. Customer Evaluation

After receiving the service, the customer compares the actual experience with their pre-purchase expectations. If the service performs as expected or better, the evaluation is positive; otherwise, it becomes negative.

Example: A passenger evaluates an airline by comparing the punctuality, comfort, and staff behaviour with what was promised during booking.

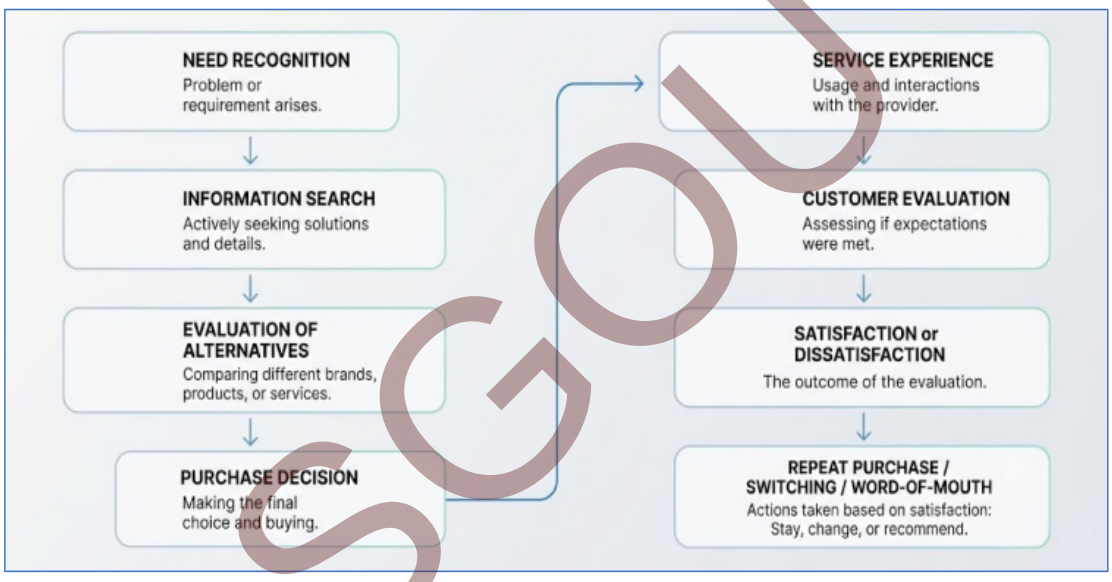


Fig: 3.1.1 Process of Customer Behaviour in Services

7. Satisfaction or Dissatisfaction

Customer satisfaction occurs when the service meets or exceeds expectations, whereas dissatisfaction arises when the service falls short of expectations. This emotional response strongly affects future buying behaviour.

Example: A customer is satisfied when a mobile banking app completes transactions quickly and securely but becomes dissatisfied if frequent technical issues occur.

8. Repeat Purchase / Switching / Word-of-Mouth

Based on their satisfaction, customers decide whether to continue with the same service provider, switch to another provider, or share their experiences with others. Positive experiences encourage loyalty and favourable word-of-mouth, while negative

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experiences may lead to switching and negative reviews.

Example: A satisfied customer continues using the same internet service provider and recommends it to friends, while an unhappy customer changes to another provider and posts a negative online review.

For instance, a family planning a holiday first decides on the destination, then compares airlines, hotels, and travel agencies, reads online reviews, books tickets, experiences the trip, and later posts reviews on websites or social media. Each of these stages reflects customer behaviour. Unlike with products, customers often become co-producers of services. A student participates in classroom discussions, a patient provides medical history, and a bank customer completes documentation. Thus, customer behaviour directly influences service quality.

3.1.3 Customer Behaviour in Services Versus Customer Behaviour in Goods

Customers purchase both goods and services to satisfy their needs. However, the decision-making process and evaluation criteria differ significantly due to the unique characteristics of services, such as intangibility, inseparability, variability, and perishability. Unlike goods, services cannot usually be seen, touched, tested, or stored before purchase. As a result, customers experience greater uncertainty and perceive higher levels of risk when purchasing services.

To understand customer behaviour in services, it is useful to compare it with customer behaviour in goods. Suppose a customer intends to purchase a laptop. Before buying, the customer can compare specifications, examine the design, test the keyboard, and even

Case Study: Apollo Hospitals – Building Trust Through Service Experience

Apollo Hospitals is one of India's largest private healthcare providers. Most patients cannot assess the quality of medical treatment before receiving it because healthcare is a highly intangible and credence-based service. Therefore, Apollo focuses on reducing patient uncertainty by highlighting internationally qualified doctors, advanced medical technology, NABH accreditation, transparent communication, digital appointment systems, and patient education.

Patients often evaluate Apollo not only by the success of the treatment but also by the courtesy of staff, waiting time, cleanliness, billing transparency, and follow-up care. This demonstrates that customer behaviour in healthcare is strongly influenced by trust and the overall service experience, not merely by the technical outcome.

Learning Point: In many services, customers purchase confidence and assurance rather than simply the service itself.

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Basis of Comparison	Goods	Services
Nature	Tangible products	Intangible experiences
Evaluation before purchase	Can be examined physically	Cannot be physically examined before purchase
Ownership	Ownership is transferred	No ownership is transferred
Customer participation	Usually low	Usually high
Production and consumption	Separate activities	Occur simultaneously
Quality evaluation	Based mainly on product features	Based on both the service process and the outcome
Perceived risk	Comparatively lower	Comparatively higher
Standardisation	More standardised	More variable because people deliver services
Role of employees	Limited after sale	Critical throughout service delivery
Importance of customer experience	Moderate	Extremely high

watch demonstration videos. The decision is based primarily on observable features. Now consider a patient choosing a hospital for heart surgery. The patient cannot experience the treatment in advance. Instead, the decision depends on the hospital's reputation, the doctor's qualifications, recommendations from relatives, online reviews, accreditation, and trust. Even after receiving treatment, the patient evaluates not only the medical outcome but also the behaviour of doctors and nurses, cleanliness, waiting time, communication, and post-treatment care.

This comparison clearly shows why understanding customer behaviour is more challenging in service marketing than in product marketing.

3.1.4 Characteristics of Customer Behaviour in Services

Customer behaviour in services possesses several distinctive characteristics that differentiate it from behaviour associated with purchasing physical goods. Understanding these characteristics enables service organisations to design effective marketing strategies and improve customer experiences.

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1. Greater Perceived Risk

You are booking a resort for your family holiday. The photographs on the website look attractive, but you are uncertain whether the rooms will actually match the images. You worry about cleanliness, customer service, food quality, and safety. Since you cannot experience the resort before your stay, the purchase involves uncertainty.

Perceived risk refers to the uncertainty customers feel regarding the outcome of a purchase. Because services are intangible and often cannot be evaluated before consumption, customers perceive greater financial, performance, psychological, social, and time-related risks. To reduce these risks, customers seek additional information through online reviews, recommendations from friends, expert opinions, company reputation, and service guarantees.

2. Dependence on Information Sources

Riya wants to join a fitness centre. Instead of choosing the nearest gym, she checks Google reviews, Instagram posts, YouTube videos, and recommendations from friends before making her decision.

Customers rely heavily on external information sources when selecting services because they cannot physically inspect them beforehand. These sources include personal recommendations, online reviews, social media, company websites, advertisements, and expert opinions. Positive word-of-mouth often carries greater credibility than advertisements.

3. Active Customer Participation

A teacher can provide an excellent lecture, but learning also depends on whether students attend classes, participate in discussions, complete assignments, and revise the lessons. Unlike manufacturing, service production often requires active participation from customers. Customers contribute information, make decisions, follow procedures, and cooperate with service providers. Their participation directly influences the quality of the final service.

4. Simultaneous Production and Consumption

A haircut cannot be produced today and delivered next week. It is created while the customer is present.

Most services are produced and consumed at the same time. Consequently, customer behaviour during the service encounter directly affects the service experience. Since the customer is physically or virtually present during service delivery, interactions with employees become an integral part of the service.

5. Emotional Influence on Service Evaluation

A customer visiting a restaurant after receiving excellent news may evaluate the dining experience more positively than someone who arrives feeling stressed. Customer emotions significantly influence perceptions of service quality. Feelings

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such as happiness, anxiety, excitement, frustration, or disappointment shape the way customers interpret service experiences. Service organisations, therefore, pay attention to ambience, employee friendliness, music, lighting, and communication to create positive emotional responses.

6. Influence of Employee Behaviour

Two customers visit different branches of the same bank. One employee greets customers politely and explains procedures patiently, while another appears impatient and uninterested. Although both branches offer identical banking services, customers are likely to perceive the quality differently.

Employees represent the organisation during service delivery. Their behaviour, appearance, communication skills, empathy, responsiveness, and professionalism significantly influence customer perceptions.

7. Continuous Evaluation

While staying in a hotel, guests continuously evaluate the check-in process, room cleanliness, food quality, housekeeping, staff behaviour, internet connectivity, and checkout experience.

Customers evaluate services at every stage, rather than only after completion. Each interaction contributes to their overall perception of service quality. This ongoing assessment means that every service encounter becomes a "moment of truth" that can strengthen or weaken customer satisfaction.

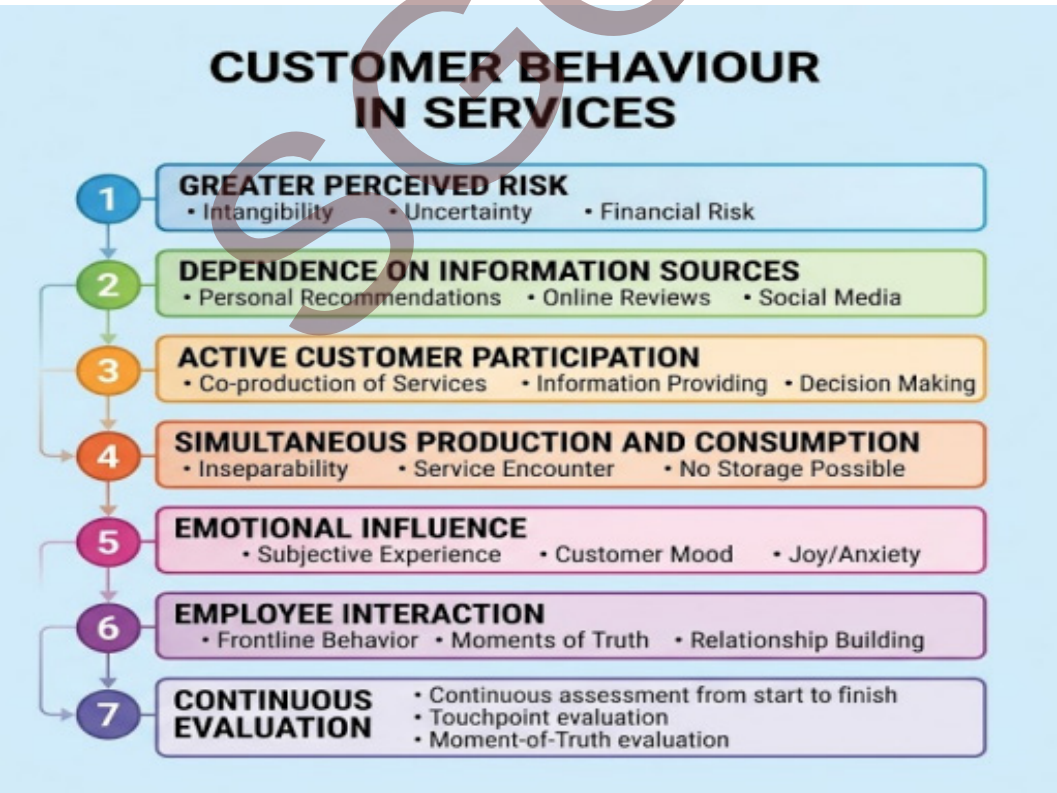


Fig: 3.1.2 Characteristics of Customer Behaviour in Services

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3.1.5. Customer Expectations in Services

Customer expectations refer to the beliefs, assumptions, or standards that customers have about the quality, performance, and experience they anticipate from a service before using it. These expectations are formed through previous experiences, advertising, recommendations, personal needs, and the organisation's reputation. In service marketing, expectations are highly important because customers cannot physically inspect most services before purchase. Consequently, they rely on expectations to evaluate whether the service provider has performed satisfactorily.

According to Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler (2018), customer expectations are customers' beliefs about service delivery that function as standards or reference points against which performance is judged. This definition highlights that expectations serve as a yardstick for evaluating service quality. These expectations influence:

1. **the selection of a service**

provider;

2. **the evaluation of service**

quality;

3. **the level of**

satisfaction;

4. **future purchase decisions; and**
5. **recommendations to others.**

When the actual service matches or exceeds expectations, customers are generally satisfied. Conversely, when the service falls short of expectations, dissatisfaction occurs.

3.1.5.1 Importance of Customer Expectations

1. **Benchmark for Evaluating Service Quality**

Customers compare the actual service with what they expected. Example: A guest expects check-in within five minutes. If it takes only three minutes, the guest feels satisfied. If it takes thirty minutes, dissatisfaction arises.

2. **Influences Customer Satisfaction**

Customer satisfaction depends largely on whether expectations are met. Example: A patient expects the doctor to explain the diagnosis clearly. If the doctor spends sufficient time answering questions, the patient feels reassured and satisfied.

3. **Encourages Customer Loyalty**

Customers whose expectations are consistently met are more likely to return.

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Example: Many customers continue using the same bank because they consistently receive reliable and prompt services.

4. Creates Positive Word-of-Mouth

Satisfied customers often recommend the service to relatives and friends. Example: Students who have positive experiences at a coaching institute frequently recommend it to their classmates.

5. Helps Organisations Improve Services

Understanding customer expectations enables organisations to identify gaps and improve service quality. Example: Airlines regularly collect passenger feedback to improve punctuality, seating comfort, and in-flight services.

3.1.5.2 Characteristics of Customer Expectations

Customer expectations possess several important characteristics.

1. Dynamic

Expectations change over time because of technological developments, competition, and changing lifestyles. Example: Ten years ago, free Wi-Fi in hotels was considered an additional facility. Today, many guests regard it as a basic necessity.

2. Subjective

Different customers may expect varying levels of service. For example, a business traveller may value fast internet connectivity, whereas a tourist might prioritise recreational facilities.

3. Influenced by Experience

Previous experiences strongly shape future expectations. For instance, a customer who has previously stayed at a luxury hotel may expect similar standards from other hotels.

4. Difficult to Measure

Expectations differ from person to person and cannot always be observed directly. Service organisations, therefore, use surveys, interviews, online reviews, and customer feedback to understand these expectations.

5. Continuously Evolving

Customer expectations rise as organisations introduce innovative services. Mobile banking, for example, has increased customer expectations for instant fund transfers and 24-hour banking services.

3.1.5.3 Types of Customer Expectations

One of the most influential frameworks explaining customer expectations was

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proposed by Zeithaml, Bitner, and Gremler. According to them, customers generally possess two major levels of service expectations.

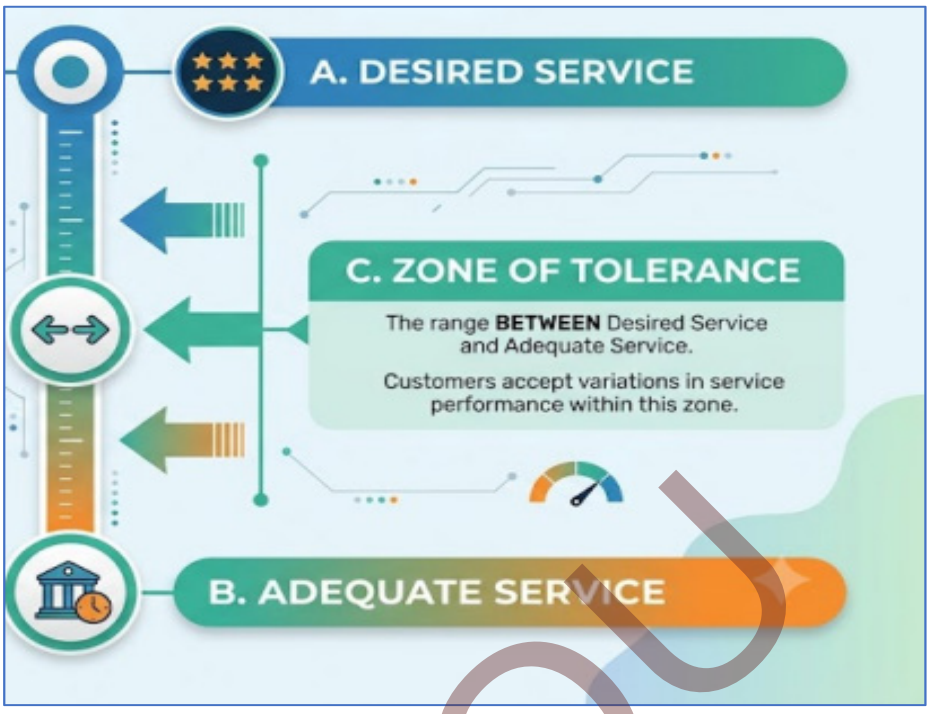


Fig: 3.1.3 Types of Customer Expectations

a. Desired Service

When booking a luxury hotel, a guest expects elegant rooms, personalised attention, excellent food, immediate room service, and professional staff. These represent the customer's desired service, which refers to the level of service customers hope to receive. It signifies the ideal performance that customers believe an excellent service provider should deliver.

b. Adequate Service

A customer visiting a government office may understand that some waiting time is unavoidable. Although the customer prefers immediate service, waiting for 20–30 minutes may still be considered acceptable. Adequate service refers to the minimum acceptable level of service that customers are willing to tolerate.

c. Zone of Tolerance

The Zone of Tolerance is the range between desired service and adequate service within which customers are willing to accept variations in service performance.

If service falls within this zone, customers generally remain satisfied.

If service falls below adequate service, dissatisfaction occurs.

If service exceeds desired service, customers may experience delight.

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Example:Suppose a passenger expects airport check-in within 10 minutes (desired service).

The passenger is willing to wait up to 20 minutes (adequate service).

If check-in takes:

1. 8 minutes → Customer delight.
2. 15 minutes → Acceptable service.
3. 35 minutes → Customer dissatisfaction.

3.1.5.4 Factors Influencing Customer Expectations

Customer expectations are influenced by numerous internal and external factors.

1. Personal Needs

Customers expect services that satisfy their specific requirements. For example, a diabetic patient expects a hospital to provide specialised dietary facilities.

2. Past Experience

Previous experiences influence future expectations. For instance, a customer who has consistently received excellent service from a restaurant expects the same quality during future visits.

3. Word-of-Mouth Communication

Recommendations from relatives, friends, and online reviews significantly influence expectations. For example, positive online reviews encourage travellers to expect excellent service from a resort.

4. Advertising and Marketing Communication

Advertisements create expectations regarding service quality. For example, if an airline advertises "on-time performance" and "premium customer care," passengers naturally expect punctual departures and attentive service.

5. Price

Customers often associate higher prices with superior quality. For instance, guests paying premium rates at a five-star hotel expect luxurious facilities and personalised service.

6. Company Reputation

A well-known brand creates higher expectations. For example, customers generally expect high service standards from internationally recognised hotel chains due to their established reputation.

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7. Situational Factors

Unexpected circumstances may temporarily alter customer expectations. For example, during heavy rainfall or flooding, customers may tolerate slight delivery delays because they understand the external conditions affecting service.

8. Technological Developments

Advances in technology continuously raise customer expectations. For example, after experiencing real-time parcel tracking, customers now expect delivery companies to provide live tracking updates as a standard feature.

3.1.6 Service Costs Experienced by Customers

Ramesh decides to visit a well-known multi-speciality hospital for a medical consultation. The consultation fee is ₹800, which he is prepared to pay. However, his total cost of receiving the service is much higher than the consultation fee alone. He spends ₹300 on transportation, waits for nearly an hour before meeting the doctor, feels anxious about the medical examination, and takes leave from work, resulting in a day's loss of income. Although the hospital charges only ₹800, the actual cost experienced by Ramesh includes money, time, effort, and emotional stress. Similarly, consider a student applying for admission to a university. Besides paying the admission fee, the student spends time collecting documents, travelling to the campus, waiting in queues, and completing various formalities. These additional costs influence the student's overall evaluation of the service.

These examples demonstrate that customers evaluate the total cost of obtaining a service rather than considering only the price charged by the service provider. In service marketing, organisations that minimise these additional costs create greater customer value and satisfaction.

Service costs experienced by customers refer to the total sacrifices that customers make to obtain, use, and benefit from a service. These sacrifices include not only the monetary price paid but also the time, physical effort, mental effort, and psychological stress involved in the service process. Unlike the purchase of many tangible products, services often require customers to actively participate in the service delivery process. Therefore, customers invest various resources before, during, and after consuming a service.

According to Christopher Lovelock and Jochen Wirtz (2022), customers evaluate services based on the total cost of obtaining the service, which includes monetary and non-monetary costs such as time, physical effort, psychological burden, and sensory experiences. Similarly, Zeithaml, Bitner, Gremler, and Pandit (2018) explain that customers determine the value of a service by comparing the benefits received with the total costs incurred, both monetary and non-monetary.

3.1.6.1 Concept of Service Costs

Customers generally think that the cost of a service is simply the price they pay.

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However, from a marketing perspective, the total service cost is much broader.

For example, when a passenger books an airline ticket, the fare is only one part of the total cost. Additional costs may include travelling to the airport, spending time at security checks, waiting for boarding, carrying luggage, and experiencing anxiety due to flight delays. Thus, the total service cost includes every sacrifice made by the customer to receive the service.

3.1.6.2 Components of Service Costs

Lovelock and Wirtz classify customer costs into monetary and non-monetary costs. Non-monetary costs include time, physical effort, psychological effort, and sensory costs.

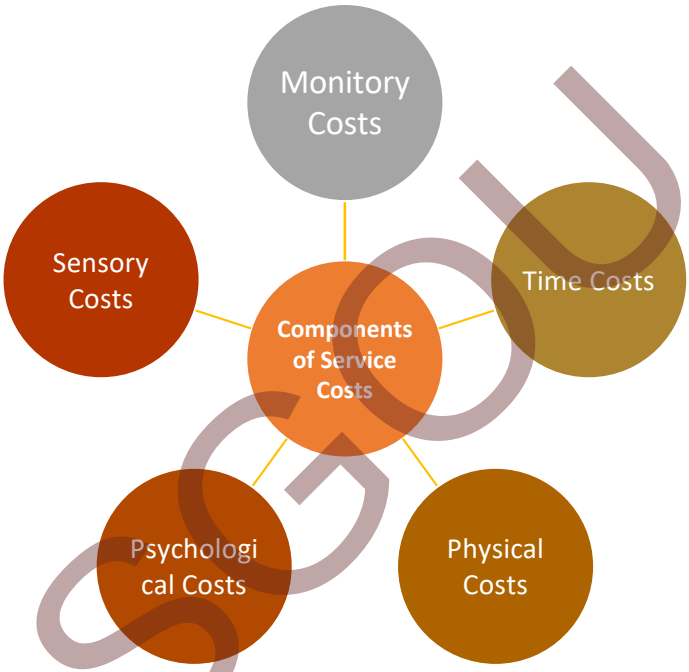


Fig: 3.1.4 Components of Service Costs

1. **Monetary Cost:** Monetary cost refers to the actual money paid by customers to obtain a service.It includes service charges, taxes, booking fees, transportation expenses, maintenance charges, subscription fees, and cancellation charges. For many services, monetary cost is only one part of the customer's total sacrifice.

2. **Time Cost:** Two banks offer identical services. Bank A completes transactions within 10 minutes, whereas Bank B requires customers to wait for 45 minutes. Although both banks charge similar fees, customers generally prefer Bank A because it reduces their time cost. Time cost refers to the time customers spend obtaining a service. It includes travelling time, waiting time, service time, follow-up time, and complaint resolution time. Since time is a valuable resource, customers often consider it more important than money.

3. **Physical Cost:** An elderly customer visits a government office located on the third floor of a building without a lift. Climbing the stairs and standing in long queues require considerable physical effort.Physical cost refers to the physical energy customers expend while obtaining a service.It may involve travelling long distances, standing for extended periods, carrying luggage, completing physical procedures, or moving between different service counters.

4. **Psychological Cost:** A patient awaiting surgery often experiences anxiety even before entering the operating theatre.Similarly, a student attending an important interview may feel nervous despite being well prepared.Psychological cost refers to the mental and emotional stress experienced while obtaining a service. Psychological costs significantly influence customer satisfaction. Service providers reduce psychological costs through clear communication, professional behaviour, transparent procedures, regular updates, and counselling services.

5. **Sensory Cost:** Consider visiting a crowded restaurant where loud music, unpleasant odours, poor lighting, and excessive heat make the dining experience uncomfortable. Although the food is delicious, the overall experience becomes less enjoyable. Sensory cost refers to the discomfort experienced through the customer's senses during service delivery. It includes excessive noise, unpleasant smells, poor lighting, uncomfortable seating, extreme temperatures, and overcrowding. Examples include loud announcements at railway stations, poor ventilation in classrooms, bright lighting in hospital wards, and unpleasant odours in public transport.

Service organisations can reduce sensory costs by improving ambience, cleanliness, lighting, air conditioning, music, seating, and interior design.

3.1.7 Customer Perception of Services

Two friends, Anu and Riya, visit the same restaurant for lunch. Both order the same meal, pay the same price, and receive their food at approximately the same time. Surprisingly, when they leave the restaurant, Anu says, *"The restaurant offers excellent service. I will definitely come again."* On the other hand, Riya remarks, *"The food was good, but the service was average. I expected much better."*

Why did two customers who received the same service evaluate it differently?

The answer lies in customer perception. Every customer interprets a service experience differently, based on personal expectations, previous experiences, emotions, attitudes, and interactions with the service provider. Therefore, customer perception is subjective and can vary from one individual to another.

In service marketing, organisations do not succeed merely by delivering a service; they succeed when customers perceive that the service is valuable, reliable, and satisfying. Consequently, understanding customer perception is essential for creating customer satisfaction and building long-term relationships.

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3.1.7.1 Meaning of Customer Perception

Customer perception refers to the way customers select, organise, and interpret information about a service to form an opinion or impression regarding its quality and value. Unlike physical products, services cannot usually be examined before purchase. Consequently, customers rely on tangible cues, employee behaviour, company reputation, previous experiences, and communication to form their perceptions.

According to Zeithaml, Bitner, Gremler and Pandit (2018), customer perceptions are customers' evaluations of the service they have received. Similarly, Solomon (2023) states that perception is the process through which people select, organise, and interpret sensory information to create a meaningful picture of the world.

Applied to services, customer perception refers to the customer's interpretation of the entire service experience.

3.1.7.2 The Customer Perception Process in Service

Customer perception is a psychological process through which customers receive, process, and evaluate information about a service. Since services are intangible, customers rely on various cues and experiences to form an opinion about the quality and value of the service. The process consists of the following stages:

1. Service Stimuli

Service stimuli are the various cues or signals that customers receive from the service environment before, during, and after using a service. These stimuli include employee behaviour, advertisements, physical facilities, prices, service quality, brand image, and recommendations from others.

Example: A customer entering a luxury hotel notices the elegant reception area, well-dressed staff, pleasant fragrance, and soothing background music. These elements create the initial stimuli that influence the customer's perception of the hotel.

2. Selection of Information

Customers are exposed to a large amount of information, but they only pay attention to the information they consider relevant or important. The information selected depends on the customer's needs, interests, previous experiences, and expectations.

Example: While choosing a restaurant, one customer may focus on online reviews and food quality, whereas another may pay more attention to price and location.

3. Organisation of Information

After selecting relevant information, customers organise it into meaningful patterns or categories. They connect different pieces of information to form an overall impression of the service provider.

Example: A bank customer may combine observations such as courteous staff, a

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clean branch, quick service, and secure digital banking facilities to conclude that the bank is efficient and trustworthy.

4. Interpretation

Interpretation is the stage where customers assign meaning to the organised information based on their beliefs, experiences, emotions, and expectations. Since interpretation is subjective, different customers may perceive the same service differently.

Example: A 15-minute waiting time at a hospital may be acceptable to a patient who anticipates a busy environment, whereas another patient might consider it poor service.

5. Customer Perception

Customer perception is the overall opinion or judgment formed after interpreting a service experience. This perception reflects how customers evaluate the quality, value, and reliability of the service.

Example: After a hotel stay, a guest may perceive the service as excellent due to friendly staff, comfortable rooms, and prompt customer support.

6. Satisfaction or Dissatisfaction

Finally, customers compare their perceptions of the service with their initial expectations. If the perceived service meets or exceeds these expectations, they feel satisfied; if it falls below expectations, they become dissatisfied.

Example: A passenger expects an airline to depart on time. If the flight leaves as scheduled and the staff provide excellent service, the passenger is satisfied. However, repeated delays and poor communication can lead to dissatisfaction and discourage future bookings.

3.1.7.3 Importance of Customer Perception in Service

Understanding customer perception helps organisations improve service quality and customer satisfaction.

1. Helps Measure Service Quality

Customers evaluate services based on their perceptions rather than an organisation's internal standards. **Example:** A hospital may have highly qualified doctors, but patients may still perceive poor quality if waiting times are excessive.

2. Influences Customer Satisfaction

Positive perceptions generally lead to higher satisfaction. **Example:** Passengers who perceive airline staff as caring and responsive are more likely to be satisfied.

3. Encourages Repeat Purchases

Customers continue purchasing services they perceive as reliable. **Example:** Many

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customers repeatedly use the same online shopping platform because they perceive it as trustworthy.

4. Enhances Brand Image

Positive customer perceptions strengthen an organisation's reputation. **Example:** Luxury hotel chains invest heavily in employee training to maintain favourable customer perceptions.

5. Creates Competitive Advantage

Organisations that consistently create positive perceptions differentiate themselves from competitors.

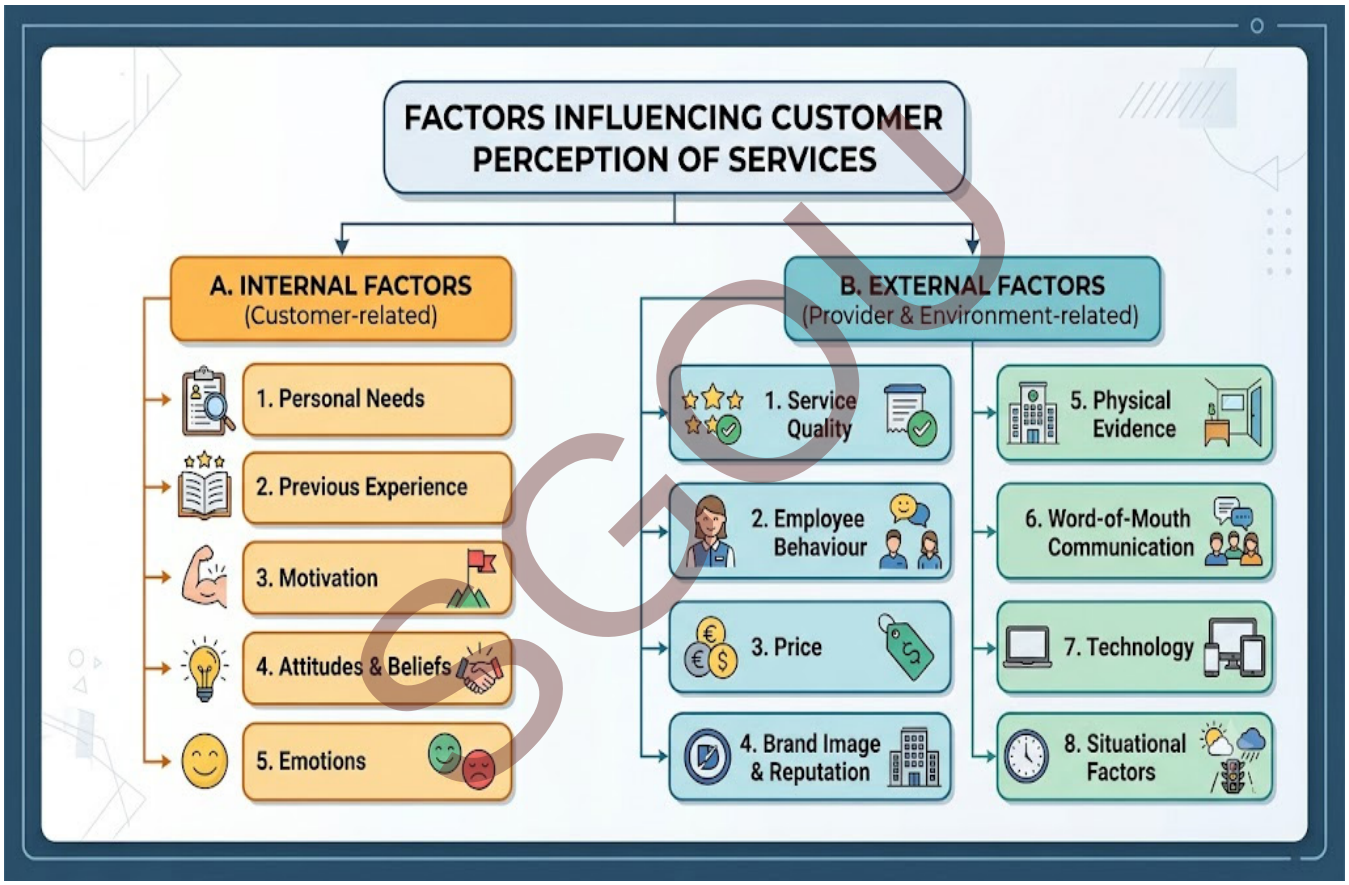


Fig: 3.1.5 Factors Influencing Customer Perception of Service

3.1.8 Factors Influencing Customer Perception of Services

Customer perception of services is influenced by a combination of internal factors (related to the customer) and external factors (related to the service provider and the service environment). These factors shape how customers evaluate the quality and value of a service. Understanding these influences helps service organisations design services that create positive customer experiences and improve satisfaction.

A. Internal Factors

1. Personal Needs

Personal needs are the specific requirements and expectations that customers seek to fulfil through a service. Since individuals have different needs, their perceptions of the same service may vary considerably. For example, a business traveller may value high-speed internet in a hotel, while a family on holiday may give greater importance to recreational facilities and children's play areas.

2. Previous Experience

Customers often compare a current service experience with their previous experiences of similar services. Positive past experiences create favourable perceptions, whereas negative experiences may lead to doubt or dissatisfaction even before the service is used. For example, a customer who previously received excellent treatment at a hospital is more likely to perceive the hospital positively during future visits.

3. Motivation

Motivation refers to the internal drive that encourages customers to seek a particular service. The reason for using a service influences how customers evaluate its performance and benefits. For instance, a person joining a fitness centre to improve their health may perceive the service differently from someone who joins mainly for social interaction.

4. Attitudes and Beliefs

Attitudes and beliefs represent customers' opinions and feelings towards a service provider or brand, developed through past experiences and available information. These attitudes influence how customers interpret service encounters and make purchase decisions. For example, customers who believe a particular bank is trustworthy are more likely to perceive its services positively.

5. Emotions

Customers' emotional states significantly affect their perception of service quality. Feelings such as happiness, excitement, anxiety, frustration, or stress influence how customers interpret the service experience. For example, a patient who receives reassuring communication from a doctor is likely to perceive the healthcare service more positively despite feeling anxious about treatment.

B. External Factors

1. Service Quality

The quality of the service delivered is one of the most important factors influencing customer perception. Customers evaluate whether the service is reliable, responsive, efficient, and capable of meeting their expectations. For example, an airline that consistently operates on schedule and provides courteous customer service is generally perceived as offering high-quality service.

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2. Employee Behaviour

Employees represent the organisation during service delivery, and their behaviour strongly influences customer perceptions. Courtesy, professionalism, empathy, responsiveness, and communication skills contribute significantly to the overall service experience. For example, a friendly hotel receptionist who warmly welcomes guests creates a positive first impression that enhances the customer's perception of the hotel.

3. Price

Customers often associate the price of a service with its quality and value. Higher prices generally create expectations of superior service, while lower prices may lead customers to expect only basic facilities. For example, passengers travelling in business class expect premium services because they pay a significantly higher fare than economy-class passengers.

4. Brand Image and Reputation

A strong brand image creates confidence and trust among customers even before they experience the service. Organisations with a good reputation are often perceived as more reliable and capable of delivering high-quality services. For example, many customers choose well-known hotel chains because of their established reputation for consistent service standards.

5. Physical Evidence

Since services are intangible, customers rely on physical evidence to judge service quality. The appearance of buildings, employee uniforms, equipment, interior décor, cleanliness, brochures, and signage all contribute to customer perception. For example, a modern hospital with advanced medical equipment and a clean environment creates confidence among patients regarding the quality of healthcare.

6. Word-of-Mouth Communication

Recommendations and opinions from family members, friends, colleagues, and online reviewers significantly influence customer perceptions. Positive word-of-mouth builds confidence in a service provider, while negative comments may deter potential customers. For instance, travellers often read online reviews before selecting a hotel, as they consider the experiences of previous guests to be credible sources of information.

7. Technology

Technology enhances convenience, speed, accuracy, and accessibility, thereby positively influencing customer perceptions. Digital services such as online booking, mobile banking, self-service kiosks, and real-time tracking improve the overall customer experience. For example, customers perceive an airline more favourably when it offers online check-in, digital boarding passes, and real-time flight updates via a mobile application.

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8. Situational Factors

Situational factors are temporary conditions that affect customer perceptions during a service encounter. Weather conditions, traffic congestion, festivals, emergencies, or public holidays may alter customer expectations and influence how they evaluate a service. For instance, customers may tolerate delivery delays during heavy rainfall or natural disasters, understanding that such circumstances are beyond the service provider's control.

Case Study: Starbucks and Customer Perception

Starbucks has successfully cultivated positive customer perceptions by carefully managing multiple influencing factors. The company prioritises friendly employee interactions, a comfortable store ambience, consistent product quality, attractive interiors, digital payment facilities, and personalised customer service.

Customers often perceive Starbucks as offering more than just coffee; they associate the brand with a pleasant environment for relaxation, meetings, and work. This positive perception enables the company to charge premium prices while maintaining strong customer loyalty.



Recap

- **Customer behaviour in services** encompasses all cognitive, emotional, and behavioural responses displayed by customers before, during, and after consuming a service.
- **Service purchase behaviour is relatively complex** because intangibility, inseparability, variability, and perishability increase customer uncertainty and perceived risk.
- **Customer behaviour follows a process** involving need recognition, information search, evaluation of alternatives, purchase decision, service experience, customer evaluation, satisfaction or dissatisfaction, and post-purchase responses.
- **Customers frequently act as co-producers of services** because their information, participation, and cooperation can directly affect the quality of service delivery.
- **Perceived risk is greater in services** because customers are usually unable to inspect or experience the service completely before purchasing it.

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- ◊ **Information sources are particularly important** because customers frequently depend on recommendations, online reviews, social media, company websites, and previous experiences before selecting a service.
- ◊ **Employee behaviour influences service evaluation** because courtesy, empathy, responsiveness, communication, and professionalism become part of the customer's experience.
- ◊ **Customer expectations provide a benchmark** against which customers compare the actual performance of a service.
- ◊ **Desired service** represents the level of performance customers hope to receive, whereas **adequate service** represents the minimum level they are prepared to accept.
- ◊ **The zone of tolerance** is the acceptable range of service performance between desired service and adequate service.
- ◊ **Customer expectations are influenced by several factors**, including personal needs, previous experience, word-of-mouth, advertising, price, reputation, situational conditions, and technological developments.
- ◊ **The total cost of a service goes beyond its price** and may include monetary, time, physical, psychological, and sensory costs.
- ◊ **Time cost** includes travelling, waiting, receiving the service, follow-up activities, and complaint-resolution time.
- ◊ **Psychological cost** refers to anxiety, stress, and other mental or emotional burdens associated with receiving a service.
- ◊ **Sensory cost** arises from unpleasant conditions such as excessive noise, odour, uncomfortable seating, poor lighting, or overcrowding.
- ◊ **Customer perception is subjective** because customers interpret the same service differently depending on their expectations, emotions, previous experiences, and attitudes.
- ◊ **The customer perception process** includes exposure to service stimuli, selection of information, organisation, interpretation, formation of perception, and satisfaction or dissatisfaction.
- ◊ **Internal factors influencing perception** include personal needs, previous experience, motivation, attitudes and beliefs, and emotions.
- ◊ **External factors influencing perception** include service quality, employee behaviour, price, brand reputation, physical evidence, word-of-mouth, technology, and situational factors.
- ◊ **Positive customer perceptions contribute to loyalty** because customers who perceive services as reliable and valuable are more likely to repurchase and recommend the organisation.

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Objective Questions

1. What is the first stage in the customer behaviour process in services?
2. What term refers to the level of service that customers ideally hope to receive?
3. What is the minimum acceptable level of service called?
4. What is the range between desired service and adequate service known as?
5. Which type of customer cost refers to the money paid to obtain a service?
6. Which customer cost represents the time spent travelling, waiting, and obtaining a service?
7. Which type of service cost relates to mental anxiety and emotional stress?
8. Which type of service cost arises from noise, odour, lighting, and temperature?
9. Which characteristic of services means that production and consumption usually occur at the same time?
10. What is the customer's overall judgement formed after interpreting a service experience called?
11. Which communication source involves recommendations from friends, relatives, and other customers?
12. What customer response occurs when actual service falls below expectations?

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Answers

1. Need recognition
2. Desired service
3. Adequate service
4. Zone of tolerance
5. Monetary cost

6. Time cost
7. Psychological cost
8. Sensory cost
9. Inseparability
10. Customer perception
11. Word-of-mouth
12. Customer dissatisfaction

Self Assessment Questions

1. Explain the meaning of customer behaviour in services and discuss the different stages involved in the customer behaviour process.
2. Compare customer behaviour in services with customer behaviour in goods, providing suitable examples.
3. Discuss the major characteristics of customer behaviour in services and explain how these characteristics influence the marketing strategies of service organisations.
4. What are customer expectations? Explain desired service, adequate service, and the zone of tolerance, along with the major factors influencing customer expectations.
5. Explain the concept of customer perception in services. Discuss the customer perception process and the internal and external factors influencing customer perception.

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Assignments

1. Visit a hotel, restaurant, or café in your locality and observe the complete customer experience from entry to exit. Identify five factors that positively or negatively influence customer perception and prepare a report of approximately 800–1,000 words.

2. Select any hospital, hotel, airline, bank, or educational institution and examine at least 20 customer reviews posted online. Classify the comments under service quality, employee behaviour, waiting time, physical evidence, technology, and customer satisfaction, and present your findings.

3. Prepare a questionnaire comprising 10–15 questions and collect responses from at least 20 customers regarding their expectations from a service such as banking, online food delivery, healthcare, or transportation. Analyse the difference between desired and adequate service levels.

4. Select a service, such as hospital consultation, railway travel, banking, or university admission, and calculate the different costs experienced by a customer. Categorise these into monetary, time, physical, psychological, and sensory costs, and recommend ways of reducing them.

5. Compare two competing service providers in the same industry—for example, two banks, restaurants, airlines, e-commerce platforms, or mobile service providers. Evaluate how employee behaviour, price, physical evidence, technology, reputation, and service quality shape customer perceptions.

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Unit - 2

Service Delivery and Customer Experience Management

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the meaning, process, components, characteristics, and importance of effective service delivery in service organisations
- ◊ analyse the role and responsibilities of customers as participants, co-producers, evaluators, and contributors to service quality
- ◊ describe the causes of service conflicts and apply appropriate complaint-handling and service-recovery strategies
- ◊ evaluate different customer responses to service experiences and distinguish between customer satisfaction and customer delight

Prerequisite

Consider a customer visiting a bank to open a savings account. Before visiting the bank, the customer may already have certain expectations about the experience - clear information, simple procedures, reasonable waiting time, helpful employees and quick completion of the formalities. However, having a good service offering alone does not guarantee a positive experience. The way employees interact with the customer, the efficiency of the procedures, the availability of technology and the physical environment can all influence the customer's experience.

The customer is also not always a passive receiver of the service. In many situations, customers provide information, follow procedures, make choices, use technology and cooperate with employees to complete the service. Their participation can therefore influence both the efficiency of service delivery and the final outcome.

Even well-designed services may sometimes fail. A delayed transaction, incorrect information, technical problem or employee mistake can create dissatisfac-

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tion. How the organisation responds to such failures becomes important. A prompt apology, correction of the problem, appropriate compensation and effective communication may help restore customer confidence and sometimes even create a stronger relationship.

These situations show that successful service marketing involves more than simply offering a service. The manner in which the service is delivered, the role played by customers, the response to service failures and the organisation's ability to create positive experiences are all important considerations for effective service management.

Keywords

Service Delivery, Customer Participation, Service Recovery, Customer Response, Customer Delight

Discussion

3.2.1. Service Delivery

Arjun visits two banks to open a savings account. At the first bank, he is warmly welcomed by the receptionist, receives clear instructions, completes the formalities quickly, and opens the account within 20 minutes. At the second bank, he waits in a long queue, receives confusing information, and spends over an hour completing the same process. Although both banks provide the same core service – opening a savings account – Arjun perceives the first bank as offering superior service.

This example illustrates that customers evaluate not only the service itself but also the manner in which it is delivered. In service industries, the delivery process plays a crucial role in shaping customer satisfaction and loyalty. Efficient service delivery ensures that customers receive the correct service at the right time, in the appropriate manner, and at the expected quality.

Service delivery refers to the process by which a service provider makes a service available to customers, combining people, processes, technology, and physical resources to meet customer needs. Unlike physical goods, services are produced and consumed simultaneously. Therefore, the delivery process itself becomes an important part of the customer's experience.

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Definitions

According to Lovelock and Wirtz (2022), service delivery is the process of creating and delivering service experiences that satisfy customer needs through effective interactions between customers and service providers.

According to Zeithaml, Bitner, Gremler, and Pandit (2018), service delivery consists of all activities and interactions through which a service is produced and consumed, influencing customers' perceptions of service quality.

From these definitions, it is evident that service delivery involves much more than performing a task; it includes creating a positive customer experience throughout the service encounter.

Service delivery acts as the bridge between the service provider and the customer. It encompasses every activity performed from the moment a customer contacts the organisation until the completion of the service, and even any follow-up after service delivery. Since services are intangible and inseparable, customers often evaluate the quality of a service based on the delivery process rather than solely on the final outcome. Factors such as employee behaviour, communication, waiting time, physical facilities, technology, and responsiveness all influence the effectiveness of service delivery.

Example:

Suppose a customer books a train ticket through an online portal. The service delivery process includes:

- ◊ Easy access to the website
- ◊ A simple ticket booking procedure
- ◊ Secure online payment
- ◊ Instant ticket confirmation
- ◊ Timely travel updates
- ◊ Prompt customer support in case of issues

Even though the core service is transportation, the customer's overall experience depends on how efficiently these activities are performed.

3.2.1.1 Service Delivery Process

Service delivery follows a systematic sequence of activities that ensures customers receive the required service efficiently and satisfactorily.

1. Customer Need

The service delivery process begins when customers recognise a need or problem that requires a service solution. Example: A patient develops a health problem and decides to consult a doctor.

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Fig 3.2.1: Service Delivery Process

2. Service Request

The customer contacts the service provider via a branch office, website, mobile application, telephone, or other communication channels. For example, a customer might book an airline ticket using a mobile application.

3. Service Design and Preparation

The organisation prepares the necessary resources, employees, technology, and facilities required to provide the service. For instance, before a hotel guest arrives, housekeeping staff prepare the room and reception staff verify the reservation details.

4. Service Delivery

The actual service is delivered through interactions between employees, customers, and supporting technology. An example of this is a bank employee verifying documents and opening a customer's account.

5. Customer Experience

Customers evaluate the service based on their interactions, convenience, quality, employee behaviour, and overall satisfaction. For example, a restaurant customer will evaluate the food quality, ambience, cleanliness, and staff behaviour.

6. Customer Feedback

Customers express their opinions through surveys, online reviews, complaints, compliments, or direct communication. For instance, a passenger might rate an airline service using the airline's mobile application.

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7. Service Improvement

Organisations analyse customer feedback and continuously improve their service delivery process. An example of this is a hospital introducing online appointment booking after receiving complaints about long waiting times.

3.2.1.2 Components of Service Delivery

Effective service delivery depends on several key components.

1. People

Employees play a central role in delivering services because they interact directly with customers. Their knowledge, communication skills, professionalism, and courtesy significantly influence customer satisfaction. For example, a friendly hotel receptionist who greets guests warmly creates a positive first impression and enhances the customer's overall experience.

2. Process

The process refers to the sequence of activities through which the service is delivered. A simple, well-organised, and efficient process improves convenience and reduces customer waiting time. For instance, online railway ticket booking allows passengers to reserve tickets quickly without visiting a ticket counter.

3. Physical Evidence

Since services are intangible, customers use physical evidence to judge service quality. Buildings, interiors, employee uniforms, equipment, signage, and cleanliness create confidence in the service provider. For example, a clean and well-equipped hospital reassures patients about the quality of medical care.

4. Technology

Technology enhances service delivery by increasing speed, accuracy, convenience, and accessibility. It enables customers to access services anytime and from anywhere. For instance, mobile banking applications allow customers to transfer funds, pay bills, and check account balances without visiting a bank branch.

5. Customer Participation

In many services, customers actively participate in the delivery process by providing information, making decisions, or performing certain tasks. Their cooperation contributes to the successful delivery of the service. For example, a patient must accurately describe symptoms to enable the doctor to provide an appropriate diagnosis.

3.2.1.3 Characteristics of Effective Service Delivery

An effective service delivery system possesses several important characteristics.

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1. Reliability

Reliability means delivering the promised service accurately and consistently every time. Customers develop trust when organisations fulfil their commitments without errors. For example, a courier company that consistently delivers parcels on the promised date is regarded as reliable.

2. Responsiveness

Responsiveness refers to employees' willingness to assist customers promptly and efficiently. Quick responses to customer enquiries and complaints improve customer satisfaction. For example, a customer care executive who immediately resolves a billing issue demonstrates responsiveness.

3. Assurance

Assurance refers to the knowledge, competence, courtesy, and professionalism of employees that inspire customer confidence. Customers feel more secure when employees communicate clearly and perform their duties efficiently. For example, a financial advisor who patiently explains investment options helps customers make informed decisions.

4. Empathy

Empathy means understanding customers' individual needs and providing personalised attention. Service providers who show genuine concern create stronger customer relationships. For example, a teacher who provides additional guidance to a student struggling with a subject demonstrates empathy.

5. Consistency

Customers expect similar service quality during every interaction with an organisation. Consistency helps build trust, loyalty, and a positive brand image. For example, a coffee shop that serves beverages with the same taste and quality across all its branches is likely to attract repeat customers.

3.2.1.4 Importance of Service Delivery

Effective service delivery offers numerous benefits to both customers and organisations.

1. Enhances Customer Satisfaction

Efficient service delivery meets or exceeds customer expectations, leading to greater satisfaction. Customers appreciate services that are timely, accurate, and convenient.

2. Builds Customer Loyalty

Customers are more likely to return when they consistently receive high-quality service. Loyal customers also recommend the organisation to others.

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3. Creates Competitive Advantage

Superior service delivery differentiates an organisation from its competitors. In highly competitive industries, excellent service often becomes a key source of competitive advantage.

4. Improves Organisational Reputation

Consistent and reliable service delivery strengthens the organisation's image and increases public trust.

5. Increases Profitability

Satisfied customers are more likely to make repeat purchases, resulting in increased sales and long-term profitability.

3.2.1.5 Challenges in Service Delivery

Service organisations face several challenges when delivering services.

1. Variability

Service quality may vary because different employees deliver services differently. For example, customers may receive different experiences at different branches of the same bank.

2. Managing Customer Expectations

Customers have different expectations based on their needs and previous experiences. Meeting these diverse expectations is a continuous challenge.

3. Employee Performance

The success of service delivery depends largely on employee competence, attitude, and motivation. Poor employee behaviour can negatively affect customer satisfaction.

4. Technology Issues

System failures, internet connectivity problems, or software errors may interrupt service delivery. For example, an airline's online booking system becoming unavailable during peak travel periods.

5. Demand Fluctuations

Customer demand often varies by season, time, or special occasions, making it difficult to maintain consistent service quality. For example, hotels experience heavy demand during holiday seasons and tourist festivals.

3.2.2 Role of Customers in Service Delivery

Neha visits a hospital for a medical consultation. Before seeing the doctor, she registers at reception, provides her medical history, undergoes preliminary tests, and

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Case Study: Amazon's Service Delivery Excellence

Amazon has transformed service delivery by integrating technology, logistics, and customer-centric practices. Customers can search for products, place orders, make secure payments, track deliveries in real time, and return products easily through a streamlined digital platform.

Amazon also utilises advanced warehouses, predictive inventory management, and efficient delivery networks to minimise delays and enhance convenience. Its emphasis on rapid delivery, transparent communication, and hassle-free returns has significantly boosted customer satisfaction and loyalty, establishing it as one of the world's foremost service organisations.

clearly explains her symptoms to the doctor. The doctor then diagnoses the illness and recommends treatment. The quality of healthcare depends not only on the doctor's expertise but also on the information Neha provides and her willingness to adhere to the prescribed treatment. Similarly, consider a student attending an online class. The teacher prepares the lesson and explains the concepts effectively, but the student's learning is contingent on active participation, asking questions, completing assignments, and attending classes regularly. If the student does not participate, the quality of the educational service is compromised.

These examples illustrate that in many services, customers are not merely recipients; they actively participate in creating the service. Unlike manufacturing, where customers typically receive a finished product, service delivery often necessitates customers cooperating with employees, providing information, making decisions, and performing certain activities. Consequently, customers are frequently referred to as co-producers or co-creators of value.

3.2.2.1 Customer Participation in Service Delivery

Customer participation refers to the physical, mental, and emotional involvement of customers in the service delivery process. This includes providing information, following instructions, cooperating with service employees, utilising technology, and contributing to the successful delivery of the service. In many service industries, the quality of the final service depends on the joint efforts of both the service provider and the customer.

Definitions

According to Lovelock and Wirtz (2022), customers are often active participants in service production and delivery, contributing their time, effort, information, and cooperation to create value.

According to Zeithaml, Bitner, Gremler, and Pandit (2018), customers frequently act as co-producers of services because their participation influences service quality,

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efficiency, and satisfaction.

These definitions highlight that customers are partners in the service delivery process rather than passive buyers.

3.2.2.2 Concept of Customer Participation

Customer participation begins when customers contact the service provider and continues until the service is completed. Customers may provide information, make choices, perform self-service activities, or interact with employees throughout the service encounter. The level of participation varies depending on the type of service. Some services require minimal customer involvement, while others depend heavily on active customer participation.

Example:

Suppose a customer books a flight online.

The customer must:

- ◊ search for available flights,
- ◊ select the travel date,
- ◊ enter passenger details,
- ◊ upload identification documents,
- ◊ make online payment,
- ◊ complete web check-in,
- ◊ arrive at the airport on time.

Although the airline provides the transportation service, the customer performs several activities that contribute to successful service delivery.

3.2.2.3 Levels of Customer Participation

The extent of customer participation differs across services. Based on the framework developed by Lovelock and Wirtz, services can be classified into three levels:

1. Low Level of Participation

Customers play only a limited role in service delivery, with most activities performed by the service provider. For example, passengers travelling by metro or bus simply purchase tickets and use the transport service, while the transport company performs most of the service activities.

2. Moderate Level of Participation

Customers provide information or perform certain tasks, while employees perform

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the remaining activities. For example, when opening a bank account, customers submit documents and complete application forms, while bank employees verify the information and process the application.

3. High Level of Participation

Customers actively participate throughout the service delivery process. Without their involvement, the service cannot be successfully delivered. For example, education, healthcare, fitness training, counselling, and legal services require continuous customer participation. A student's learning depends on attending classes, participating in discussions, completing assignments, and preparing for examinations.

Table: 3.2.1 Levels of Customer Participation

Level	Customer Involvement	Example
Low	Limited participation	Public transport
Moderate	Information sharing and cooperation	Banking services
High	Active participation throughout	Education, healthcare, fitness training

3.2.2.4 Roles Performed by Customers in Service Delivery

Customers perform several important roles during service delivery.

1. Customers as Co-Producers

Customers contribute directly to the production of services through their participation. For example, a patient who accurately describes symptoms enables the doctor to make a correct diagnosis.

2. Customers as Contributors to Service Quality

The quality of many services depends on customer cooperation and behaviour. For example, students who actively participate in classroom discussions gain greater learning benefits than passive learners.

3. Customers as Competitors

Sometimes customers perform tasks previously carried out by employees through self-service technologies. For example, customers use ATM machines instead of visiting bank counters for cash withdrawals. Similarly, passengers use airport self-check-in kiosks instead of approaching airline staff.

4. Customers as Evaluators

Customers continuously evaluate the service process and outcome. Their feedback helps organisations improve service quality. For example, after completing an online shopping transaction, customers rate the seller and delivery service.

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3.2.2.5 Responsibilities of Customers During Service Delivery

Customers also have certain responsibilities that contribute to successful service delivery.

1. Providing Accurate Information

Customers should provide complete and correct information required for service delivery. For example, patients should disclose their medical history accurately to receive appropriate treatment.

2. Following Instructions

Customers should follow the guidelines provided by the service organisation. For example, passengers should arrive at the airport before the reporting time to complete check-in procedures smoothly.

3. Cooperating with Employees

Mutual cooperation creates a positive service experience. For example, customers waiting patiently for their turn enable hospitals and banks to provide services more efficiently.

4. Respecting Other Customers

Customers share many service environments with others. They should behave responsibly and avoid disturbing fellow customers. For example, maintaining silence in a library helps everyone benefit from the service.

5. Providing Feedback

Customer suggestions and complaints help organisations improve service quality. For example, a restaurant modifies its menu based on customer feedback regarding food preferences.

3.2.2.6 Benefits of Customer Participation

Customer participation offers advantages for both customers and service organisations.

Benefits for Customers

- ◊ Better understanding of the service.
- ◊ Greater satisfaction.
- ◊ Faster service delivery.
- ◊ More personalised service.
- ◊ Increased confidence.

Benefits for Organisations

- ◊ Improved service quality.
- ◊ Reduced operating costs.

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- ◊ Higher customer satisfaction.
- ◊ Stronger customer relationships.
- ◊ Valuable customer feedback.

3.2.2.7 Challenges of Customer Participation

Despite its benefits, customer participation also presents certain challenges.

1. **Lack of Customer Knowledge:** Customers may not fully understand the service process. For example, some bank customers require assistance when using internet banking for the first time.
2. **Poor Communication:** Incorrect or incomplete information provided by customers can reduce service quality. For instance, providing an incorrect delivery address may delay courier services.
3. **Uncooperative Behaviour:** Some customers refuse to follow organisational procedures. For example, passengers ignoring airport security instructions may delay the boarding process.

Case Study: IKEA – Customers as Co-Producers

IKEA has developed a business model where customers actively participate in the service process. Customers browse products in the showroom, select items, transport flat-packed furniture, and assemble it themselves using detailed instructions.

This approach reduces labour and operating costs, enabling IKEA to offer furniture at affordable prices. Simultaneously, customers become active participants in creating value rather than simply purchasing a finished product. The IKEA model demonstrates how customer participation can improve operational efficiency and customer engagement.

4. **Unrealistic Expectations:** Customers sometimes expect services beyond what the organisation has promised. For example, a budget hotel guest expecting luxury facilities may become dissatisfied despite receiving the promised service.
5. **Misuse of Self-Service Technology:** Customers unfamiliar with digital platforms may experience difficulties when using online services. For example, senior citizens may require assistance when booking railway tickets through mobile applications.

3.2.3 Conflict Handling in Services

Mr Aravind booked a room in a hotel for an important business meeting. Upon

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arrival, the receptionist informed him that his reserved room was unavailable due to an overbooking error. Frustrated, Mr Aravind complained and demanded an immediate solution. Instead of arguing, the hotel manager sincerely apologised, arranged accommodation in a better room at no extra cost, and offered complimentary breakfast. Although the service initially failed, the hotel's prompt response restored the customer's confidence.

Similarly, consider a customer who orders a product through an online shopping platform. The product is delivered two days later than promised. The customer contacts customer support, where the executive apologises, explains the reason for the delay, and offers a refund of the delivery charges. The customer appreciates the organisation's honesty and willingness to resolve the issue.

These examples illustrate that conflicts are inevitable in service organisations because services involve direct interactions between customers and employees. What distinguishes an excellent service organisation is not the complete absence of problems, but its ability to handle conflicts quickly, fairly, and professionally.

Conflict handling in services refers to the process of identifying, managing, and resolving disagreements, complaints, misunderstandings, or dissatisfaction that arise during service delivery. Its aim is to restore customer confidence, maintain positive relationships, and improve customer satisfaction. As services are produced and consumed simultaneously, service failures or misunderstandings can occur at any stage. Effective conflict handling ensures that these issues are resolved in a way that benefits both the customer and the organisation.

Definitions

According to Lovelock and Wirtz (2022), service recovery involves the actions taken by an organisation in response to service failures to resolve customer problems and restore satisfaction.

Zeithaml, Bitner, Gremler, and Pandit (2018) state that complaint handling and service recovery are essential components of customer relationship management because they help rebuild trust after service failures.

These definitions indicate that conflict handling is not merely about resolving a complaint; it is an opportunity to strengthen customer relationships.

3.2.3.1 Causes of Conflict in Services

Conflicts in services arise for various reasons. Understanding these causes enables organisations to take preventive measures and improve service quality.

1. Poor Service Quality

Conflicts occur when the service provided does not meet customer expectations. Customers become dissatisfied if the promised service is not delivered accurately or consistently.

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Example: A customer books a hotel room with air conditioning, but the room allocated does not have a functioning air conditioner, leading to dissatisfaction and a complaint.

2. Delays in Service Delivery

Customers expect services to be delivered within the promised time. Excessive waiting times or delayed delivery often result in frustration and conflict. *Example:* Passengers become upset when a flight is delayed for several hours without receiving timely information from the airline.

3. Employee Behaviour

Rude, indifferent, or unprofessional behaviour by employees can easily lead to conflicts. Customers expect employees to be courteous, respectful, and willing to assist. *Example:* A bank customer may complain if an employee responds impatiently to questions regarding account procedures.

4. Communication Gaps

Misunderstandings caused by unclear or incomplete communication frequently create conflicts. Incorrect information regarding prices, policies, or service procedures may disappoint customers.

Example: A customer who is not informed about additional service charges may feel misled when receiving the final bill.

5. Unmet Expectations

Customers become dissatisfied when actual service falls below their expectations. Unrealistic expectations created through advertisements or word-of-mouth may also lead to conflict.

Example: A traveller expects luxury facilities after viewing promotional photographs of a hotel but finds that the actual facilities are much more basic.

6. Technical or System Failures

Technology failures such as payment errors, website crashes, or booking system failures interrupt service delivery and inconvenience customers.

Example: An airline's online reservation system becomes unavailable during a festive season, preventing passengers from booking tickets.

3.2.3.2 Types of Customer Complaints

Customers express dissatisfaction in different ways. Understanding these complaints helps organisations respond appropriately.

1. Complaints Related to Service Quality

Customers complain when the service does not meet expected standards. *Example:* A restaurant customer complains about poor food quality or incorrect orders.

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2. Complaints Related to Employee Behaviour

Customers may express dissatisfaction regarding the attitude or behaviour of employees. For example, a hospital patient might complain that reception staff were impolite and unhelpful.

3. Complaints Related to Price

Customers may feel that a service is overpriced or that hidden charges have been added. For example, a hotel guest might dispute unexpected charges on their final bill.

4. Complaints Related to Delays

Long waiting times or delayed services often result in complaints. For example, a customer waiting several hours for a courier delivery may contact customer support to express dissatisfaction.

3.2.3.3 Conflict Handling Process

Effective conflict handling follows a systematic process that helps organisations resolve customer issues efficiently.

Step 1: Listen Carefully

Employees should listen patiently without interrupting the customer. Careful listening helps identify the actual cause of dissatisfaction. For example, a customer service executive allows a customer to explain the issue completely before offering a solution.



Fig 3.2.2: Conflict Handling Process

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Step 2: Understand the Problem

Employees should collect all relevant facts before making decisions. Proper understanding prevents incorrect or incomplete solutions. For example, a hotel manager verifies booking details before responding to a customer's complaint.

Step 3: Apologise and Show Empathy

A sincere apology and empathetic attitude help calm frustrated customers and demonstrate that the organisation values their concerns. For example, an airline apologises for a flight delay caused by technical problems and explains the situation honestly.

Step 4: Provide an Appropriate Solution

The organisation should resolve the issue promptly through refunds, replacements, compensation, repairs, or alternative services. For example, an online retailer immediately replaces a damaged product without additional charges.

Step 5: Follow Up

Following up with the customer confirms that the problem has been resolved satisfactorily. It also helps rebuild trust. For example, a hospital contacts a patient after discharge to enquire about their recovery and satisfaction with the services received.

Step 6: Improve the Service Process

Customer complaints should be analysed to identify recurring problems and improve future service delivery. For example, a bank introduces additional customer service counters after receiving repeated complaints about long waiting times.

3.2.3.4 Benefits of Effective Conflict Handling

1. **Increases Customer Satisfaction**

Prompt and fair conflict resolution reassures customers that the organisation values them and is committed to quality service.

2. **Builds Customer Loyalty**

Customers are more likely to remain loyal when organisations resolve problems quickly and professionally.

3. **Enhances Organisational Reputation**

Organisations known for excellent complaint handling often enjoy stronger public trust and a positive brand image.

4. **Reduces Negative Word-of-Mouth**

Satisfied customers are less likely to share negative experiences and may even recommend the organisation because of its excellent service recovery.

5. **Provides Opportunities for Continuous Improvement**

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Customer complaints reveal weaknesses in service processes and help organisations improve future performance.

Service recovery refers to the actions taken by an organisation to correct a service failure and restore customer satisfaction. A well-executed recovery can strengthen customer trust and sometimes result in greater loyalty than if no problem had occurred. Common Service Recovery Strategies are:

a. Offering a sincere apology.
b. Correcting the mistake immediately.
c. Providing refunds or compensation.
d. Replacing the service.
e. Giving discounts or complimentary services.
f. Maintaining transparent communication.

Case Study: Marriott International – Service Recovery

Marriott International empowers many of its hotel managers to resolve guest complaints immediately, without lengthy approval procedures. If a guest experiences problems such as delayed room readiness or maintenance issues, staff members are encouraged to apologise sincerely, rectify the problem quickly, and, where appropriate, provide compensation such as complimentary meals or loyalty points.

This approach demonstrates that effective service recovery focuses not only on correcting the problem but also on rebuilding the guest's confidence in the brand.

3.2.5 Customer Responses in Services

Suppose Akhil books a room in a resort for a weekend holiday. The room is clean, the staff are friendly, and the services exceed his expectations. After returning home, he writes a positive online review, recommends the resort to his friends, and plans to visit again next year. His positive response benefits both the resort and potential customers. Now consider another guest, Ramesh, who stays at the same resort but experiences delayed room service, poor housekeeping, and rude staff behaviour. Instead of returning, he posts a negative review on social media and advises others not to stay there. Although both customers used the same service, their responses were completely different because their experiences differed.

These examples show that customers do not simply consume services; they respond to their experiences. Their responses influence future purchase decisions, brand reputation, customer loyalty, and organisational profitability. Therefore, understanding customer responses is essential for effective service marketing.

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Customer responses refer to the reactions, behaviours, and actions displayed by customers after experiencing a service. These responses may be positive or negative depending on whether the service meets, exceeds, or falls short of customer expectations. Customer responses include:

- ◊ satisfaction,
- ◊ dissatisfaction,
- ◊ complaints,
- ◊ compliments,
- ◊ repeat purchases,
- ◊ customer loyalty,
- ◊ switching to competitors,
- ◊ positive or negative word-of-mouth communication.

Definitions

According to Zeithaml, Bitner, Gremler, and Pandit (2018), customer responses are behavioural and emotional reactions that occur after customers evaluate their service experiences.

Similarly, Oliver (1997) explains that customer responses are influenced by the comparison between expected performance and actual performance, a concept known as the Expectation–Disconfirmation Theory.

3.2.5.1 Customer Response Process

Customer responses develop through a sequence of stages.



Fig 3.2.3: Customer Response Process

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1. Customer Expectations

Customer expectations are the standards or beliefs that customers have about how a service should be delivered before they use it. These expectations are influenced by past experiences, advertisements, word-of-mouth, price, and the reputation of the service provider. For example, a patient visiting a reputed hospital expects qualified doctors, courteous staff, and timely treatment.

2. Service Experience

Service experience refers to the customer's actual interaction with the service provider during service delivery. It includes every aspect of the service encounter, such as employee behaviour, service quality, waiting time, and the physical environment. For example, a guest staying at a hotel experiences the quality of the room, staff hospitality, food service, and check-in process.

3. Evaluation of Service

After using a service, customers compare their actual experience with their initial expectations. If the service meets or exceeds these expectations, they are satisfied; if it falls short, they become dissatisfied. For example, if a restaurant serves delicious food quickly in a pleasant atmosphere, customers are likely to evaluate the service positively.

4. Customer Response

Customer response is the reaction of customers after evaluating the service they received. Their response may be positive, such as expressing satisfaction, or negative, such as complaining or sharing disappointment. For example, a satisfied airline passenger may appreciate the staff's service, while a dissatisfied passenger may file a complaint about delayed baggage.

5. Future Behaviour

Future behaviour refers to the actions customers are likely to take after their service experience. Positive experiences encourage customers to continue the relationship, while negative experiences may lead them to leave the service provider. For example, a customer who receives excellent banking service is more likely to continue using the same bank and recommend it to others.

3.2.5.2 Types of Future Behaviour

1. **Repeat Purchase:**Repeat purchase occurs when satisfied customers buy the same service again from the same provider. It reflects customer satisfaction and trust in the quality of the service. For example, a family regularly books rooms at the same resort because they have always enjoyed a pleasant stay.

2. **Customer Loyalty:**Customer loyalty is the long-term commitment of customers to continue choosing a particular service provider despite the availability of alternatives. Loyal customers often develop an emotional attachment to the brand and are less sensitive to price changes. For example, many people continue using the same mobile network for years because they trust its service quality and customer support.

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3. **Positive Word-of-Mouth:**Positive word-of-mouth occurs when satisfied customers voluntarily recommend a service to friends, relatives, or colleagues. It is one of the most effective and low-cost forms of promotion for service organisations. For example, a student who has a good learning experience at a coaching centre recommends it to classmates.

4. **Complaint:**A complaint is a customer's expression of dissatisfaction when the service does not meet expectations. Complaints provide valuable feedback that organisations can use to improve service quality and customer satisfaction. For example, a hotel guest complains to reception because the room was not cleaned before check-in.

5. **Switching to Competitors**

Switching to competitors occurs when customers stop using one service provider and choose another due to dissatisfaction, better prices, or superior service elsewhere. High switching rates often indicate poor service quality or weak customer relationships. For example, a customer changes from one internet service provider to another because of frequent network interruptions and poor customer support.

3.2.5.2 Types of Customer Responses

Customer responses can be broadly classified into positive and negative responses.

A. Positive Customer Responses

1. **Customer Satisfaction**

Customer satisfaction occurs when the service received meets or exceeds customer expectations. Satisfied customers are more likely to continue using the service and recommend it to others.

Example:A passenger experiences comfortable seating, punctual departure, a courteous cabin crew, and timely baggage delivery, resulting in satisfaction with the airline's services.

2. **Customer Loyalty**

Customer loyalty refers to a customer's commitment to repeatedly purchase services from the same organisation over an extended period. Loyal customers consistently choose the same service provider despite the availability of alternatives. **Example:**Many customers continue using the same mobile banking application due to their trust in its security and reliability.

3. **Positive Word-of-Mouth**

Satisfied customers often share favourable experiences with relatives, friends, colleagues, and through online reviews. Positive recommendations help organisations attract new customers with minimal additional promotional cost. **Example:**A tourist who enjoys excellent hospitality at a resort recommends it to friends planning their holidays.

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4. Repeat Purchase

Customers who are satisfied with a service frequently purchase it again. Repeat purchases indicate confidence in the organisation's ability to deliver consistent quality. **Example:**A family repeatedly books holidays through the same travel agency due to its dependable service and competitive pricing.

B. Negative Customer Responses

1. Customer Dissatisfaction

Customer dissatisfaction occurs when the actual service fails to meet customer expectations. Dissatisfied customers may reduce their future purchases or avoid the organisation altogether. **Example:**A restaurant customer receives cold food after a long wait and leaves feeling disappointed.

2. Customer Complaints

Customers express dissatisfaction by communicating their problems directly to the organisation. Complaints provide organisations with valuable opportunities to identify weaknesses and improve service quality. **Example:**A hotel guest complains about poor housekeeping and requests immediate cleaning of the room.

3. Negative Word-of-Mouth

Dissatisfied customers often share negative experiences with others, which can seriously damage an organisation's reputation. In the digital age, negative online reviews spread quickly and influence potential customers. **Example:**A customer posts a negative review about delayed food delivery on social media, discouraging others from ordering from the restaurant.

4. Customer Switching

Switching occurs when customers stop using one service provider and choose a competitor instead. Frequent switching results in a loss of revenue and reduced customer retention. **Example:**A customer changes mobile network providers due to poor network coverage and unsatisfactory customer support.

3.2.5.3 Factors Influencing Customer Responses

Several factors determine how customers respond after receiving a service.

1. Service Quality

Customers who receive reliable, prompt, and professional service generally respond positively. **Example:** A courier company delivering parcels safely and on time receives favourable customer reviews.

2. Customer Expectations

The gap between expectations and actual performance strongly influences customer responses. **Example:** Guests expecting luxury services from a premium hotel become dissatisfied if basic facilities are unavailable.

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3. Employee Behaviour

Polite, helpful, and empathetic employees create positive customer experiences. **Example:** A courteous nurse who patiently explains medical procedures increases patient satisfaction.

4. Price and Perceived Value

Customers compare the benefits received with the amount paid. Services offering greater value generally receive favourable responses. **Example:** Customers appreciate budget airlines that provide reliable services at affordable fares.

5. Service Recovery

Effective complaint handling can transform dissatisfied customers into loyal advocates. For example, an online retailer who quickly replaces a damaged product and offers a discount voucher for the inconvenience demonstrates this principle.

3.2.5.4 Importance of Understanding Customer Responses

Studying customer responses enables organisations to:

1. **Improve Service Quality:**Customer feedback reveals strengths and weaknesses in service delivery.
2. **Increase Customer Retention:**Understanding customer reactions helps organisations reduce customer churn.
3. **Build Long-Term Relationships:**Positive responses encourage repeat purchases and foster customer loyalty.
4. **Enhance Brand Reputation:**Satisfied customers strengthen the organisation's public image through positive recommendations.

Case Study: Zappos – Building Loyalty Through Customer Responses

Zappos has built its reputation on exceptional customer service. The company offers free shipping, a generous return policy, and highly responsive customer support. Employees are encouraged to spend as much time as necessary resolving customer issues, rather than rushing conversations.

As a result, many customers respond positively by making repeat purchases and sharing favourable experiences with others. Zappos demonstrates how excellent customer service can generate strong customer loyalty and positive word-of-mouth, even in a highly competitive online retail market.

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5. **Increase Profitability:**Retaining satisfied customers is generally more economical than continually acquiring new ones.

3.2.6 Concept of Customer Delight

Imagine Meera booking a hotel room for her birthday celebration. She expects a clean room, polite staff, and good food. Upon entering the room, she discovers a small birthday cake, a handwritten greeting card from the hotel staff, and complimentary dessert for dinner. Meera is not merely satisfied; she is pleasantly surprised and emotionally touched by this unexpected experience. Similarly, consider a customer who orders a product online. The product arrives earlier than expected, is beautifully packaged, and includes a thank-you note and a discount coupon for future purchases. The customer feels delighted and is likely to share the experience with others.

These examples illustrate that customer delight goes beyond customer satisfaction. Satisfaction occurs when expectations are met, whereas delight occurs when the service exceeds expectations in a surprising and memorable way. In today's competitive service environment, organisations increasingly aim not only to satisfy customers but also to delight them.

Customer delight refers to a highly positive emotional response that occurs when a service exceeds customer expectations, creating pleasant surprise and joy.

Delight involves both:

◊ High satisfaction, and

◊ Positive surprise

If customers simply receive what they expected, they are satisfied. If they receive significantly more than expected, they may become delighted.

Definitions

According to Oliver, Rust, and Varki (1997), customer delight is a combination of high levels of satisfaction and positive emotional surprise resulting from unexpectedly superior performance.

According to Lovelock and Wirtz (2022), delight occurs when service performance exceeds desired expectations and creates an emotional connection with the customer.

These definitions highlight that delight is not only a cognitive evaluation but also an emotional experience.

3.2.6.1 Customer Satisfaction versus Customer Delight

Many learners confuse satisfaction with delight. While related, the two concepts are not identical.

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Basis	Customer Satisfaction	Customer Delight
Expectation level	Met	Exceeded
Emotional intensity	Moderate	Very high
Surprise element	Usually absent	Present
Customer reaction	Pleased	Excited and enthusiastic
Likelihood of recommendation	High	Very high
Loyalty impact	Strong	Exceptional

Table: 3.2.2 Satisfaction and Delight

Example 1:

Satisfaction: A restaurant serves the food exactly as ordered and within the promised time.

Delight: The restaurant serves the food promptly and also offers a complimentary dessert for a special occasion.

Example 2:

A passenger expects a normal flight experience.

The airline provides:

- ◊ early boarding assistance,
- ◊ a complimentary seat upgrade,
- ◊ personalised attention,
- ◊ prompt baggage handling.

These unexpected additional benefits create delight.

3.2.6.2 Characteristics of Customer Delight

Customer delight has several distinctive characteristics.

1. **Exceeds Expectations:**Delight occurs only when the service performs beyond what the customer expected. Example: A courier delivers a package one day earlier than promised.
2. **Creates Positive Surprise:**The customer receives something unexpected and pleasant.Example: A hotel upgrades a guest to a better room without additional charges.
3. **Involves Strong Emotions:**Delight generates feelings such as joy, excitement, appreciation, and gratitude. Example: A hospital staff member comforts and

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supports a nervous patient before surgery.

4. **Memorable Experience:**Delighted customers remember the experience for a long time.Example: A theme park employee helping a lost child reunite with parents creates a lasting memory.

5. **Encourages Sharing:**Customers often share delightful experiences with friends and on social media. Example: A customer posts photos of a beautifully arranged anniversary dinner provided by a restaurant.

3.2.6.3 Importance of Customer Delight

Creating delight offers significant benefits to service organisations.

1. **Builds Strong Customer Loyalty:**Delighted customers are more likely to remain loyal even when competitors offer lower prices.

2. **Generates Positive Word-of-Mouth:**They actively recommend the organisation to others.

3. **Enhances Brand Image:**Consistent delightful experiences strengthen the brand's reputation.

4. **Reduces Price Sensitivity:**Customers become less sensitive to price when they receive exceptional experiences.

5. **Increases Customer Lifetime Value:**Repeat purchases and referrals increase long-term profitability.

3.2.6.4 Strategies for Creating Customer Delight:

1. **Understand Customer Expectations:**Knowing what customers expect helps identify opportunities to exceed those expectations.Example: A hotel learns that a guest is celebrating a honeymoon and prepares special arrangements.

2. **Personalise the Service:**Personalisation makes customers feel valued. Example: A coffee shop remembers a regular customer's preferred beverage.

3. **Provide Unexpected Extras:** Small, unexpected benefits can create a strong emotional impact. Example: An airline offering complimentary lounge access during a long delay.

4. **Empower Employees:**Employees should have the authority to resolve problems and create positive experiences. For example, a restaurant manager might immediately replace an unsatisfactory meal without seeking approval.

5. **Respond Quickly to Problems:**Excellent service recovery can sometimes lead to delight even after an initial failure. For instance, a hotel might not only resolve a booking error but also offer a complimentary dinner.

6. **Create Emotional Connections:**Warm, caring, and genuine interactions strengthen customer relationships. An example is hospital staff regularly updating family members about a patient's condition.

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Recap

- ◊ **Service Delivery:** Service delivery is the process through which organisations combine employees, processes, technology, and physical resources to make services available to customers effectively.
- ◊ **Service Delivery Process:** The process typically moves from the identification of a customer need to a service request, preparation, actual delivery, customer experience, feedback, and continuous improvement.
- ◊ **Components of Service Delivery:** People, processes, physical evidence, technology, and customer participation jointly influence the quality of a service experience.
- ◊ **Characteristics of Effective Delivery:** Reliability, responsiveness, assurance, empathy, and consistency help organisations deliver dependable and customer-oriented services.
- ◊ **Importance of Service Delivery:** Efficient service delivery improves customer satisfaction, loyalty, reputation, competitive advantage, and profitability.
- ◊ **Customer Participation:** Customers are often active participants in service production because they provide information, make decisions, cooperate with employees, and sometimes perform self-service activities.
- ◊ **Levels of Customer Participation:** Customer involvement may be low, moderate, or high, depending on how much contribution is required from the customer during service delivery.
- ◊ **Roles of Customers:** Customers may function as co-producers, contributors to service quality, competitors through self-service, and evaluators through feedback.
- ◊ **Customer Responsibilities:** Accurate information, compliance with instructions, employee cooperation, responsible behaviour, and constructive feedback contribute to successful service outcomes.
- ◊ **Conflict Handling:** Service conflicts may arise from poor service quality, delays, employee behaviour, communication gaps, unmet expectations, and technological failures.
- ◊ **Conflict Handling Process:** Effective complaint management involves listening, understanding the issue, apologising, showing empathy, providing a solution, following up, and improving the service process.
- ◊ **Service Recovery:** Organisations can recover from service failures

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through apology, immediate correction, refunds, compensation, replacement, discounts, and transparent communication.

- ◊ **Customer Responses:** Customers may respond to services in various ways, including satisfaction, dissatisfaction, complaints, repeat purchases, loyalty, switching, and positive or negative word-of-mouth.
- ◊ **Expectation–Disconfirmation:** Customers compare their expected service with the actual performance. Performance below expectations results in dissatisfaction, equal performance leads to satisfaction, and performance above expectations may create delight.
- ◊ **Customer Delight:** Delight goes beyond mere satisfaction, combining exceptionally high satisfaction with positive surprise and emotional involvement.
- ◊ **Satisfaction versus Delight:** Satisfaction occurs when expectations are met, whereas delight occurs when expectations are exceeded in an unexpected and memorable way.
- ◊ **Creating Customer Delight:** Personalisation, unexpected extras, employee empowerment, swift problem resolution, and emotional connections can help organisations create delightful experiences.
- ◊ **Sustainable Delight:** Organisations must manage delight carefully, as excessive efforts can increase costs, create unrealistic expectations, and reduce profitability.

Objective Questions

1. What is the process called through which a service provider makes a service available to customers?
2. Which component of service delivery includes buildings, interiors, equipment, and employee uniforms?
3. Which characteristic of service delivery refers to providing the promised service accurately and consistently?
4. What term describes customers who actively contribute to the production of a service?
5. Which level of customer participation is typically associated with education and healthcare?

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6. What is the process of correcting a service failure and restoring customer satisfaction called?
7. Which step in conflict handling requires employees to understand a customer's feelings and concerns?
8. What customer behaviour occurs when a satisfied customer purchases the same service again?
9. What type of communication occurs when satisfied customers recommend a service to others?
10. Which theory explains customer satisfaction by comparing expected and actual service performance?
11. What emotional outcome occurs when service performance significantly exceeds customer expectations?
12. What customer behaviour occurs when a dissatisfied customer chooses another service provider?

Answers

1. Service delivery
2. Physical evidence
3. Reliability
4. Co-producers
5. High participation
6. Service recovery
7. Show empathy
8. Repeat purchase
9. Positive word-of-mouth
10. Expectation–Disconfirmation Theory
11. Customer delight
12. Customer switching

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Self Assessment Questions

1. Explain the concept of service delivery and discuss the major components and characteristics of an effective service delivery system.
2. Discuss the role of customers in service delivery. Explain the different levels of customer participation with suitable examples.
3. What are the major causes of conflict in service organisations? Describe the stages involved in an effective conflict-handling process.
4. Explain the different positive and negative customer responses that may arise after a service experience. Discuss the factors influencing these responses.
5. Distinguish between customer satisfaction and customer delight. Explain the major characteristics, importance, and strategies for creating customer delight.

Assignments

1. Service Delivery Observation: Visit a bank, restaurant, hospital, supermarket, or other service establishment in your locality. Observe its service delivery process and prepare a report identifying the role of employees, processes, technology, physical evidence, and customer participation.
2. Customer Participation Analysis: Select any three services such as public transport, banking, healthcare, education, fitness training, or online shopping. Classify them according to low, moderate, or high customer participation and explain the reasons for your classification.
3. Complaint-Handling Role Play: Form a small group and create a service failure scenario involving a hotel, airline, bank, or online retailer. One student should act as the dissatisfied customer and another as the service employee. Demonstrate listening, empathy, apology, solution, and follow-up as part of the complaint-handling process.
4. Customer Response Survey: Conduct a short survey of at least ten customers regarding a recent service experience. Record whether they were satisfied or dissatisfied and identify their likely future behaviour, such as repeat purchase, recommendation, complaint, or switching.

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5. Design a Customer Delight Strategy: Choose a service organisation familiar to you and prepare a practical customer delight plan containing at least five actions involving personalisation, unexpected benefits, employee empowerment, quick service recovery, or emotional engagement.

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Suggested Reading

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BLOCK - 04



Service Quality

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Unit - 1
Fundamentals of Service Quality

Learning Outcomes

On completion of this unit, learners will be able to:

- ◊ explain the concept and meaning of service quality in the context of service organisations.
- ◊ discuss the importance of service quality in achieving customer satisfaction, customer loyalty and organisational success.
- ◊ explain the GAP Model of Service Quality and identify the major service quality gaps.
- ◊ analyse the causes of service quality gaps and suggest appropriate measures for improving service quality.

Prerequisite

Imagine that Rahul needs to send an important document to a customer in another city. He chooses a courier company because it is known for providing fast and reliable delivery. At the time of booking, the staffs assure him that the document will reach its destination within two days.

Rahul provides all the necessary details and pays the charges. However, the document is delivered four days later. When he contacts the courier office, he has to make several calls before receiving a clear response. Although the document eventually reaches its destination, Rahul feels dissatisfied with the service.

Now consider another courier company. It may charge a similar amount, but its staff provide clear information, respond promptly to enquiries, track the parcel properly, and deliver it within the promised time. Customers are likely to consider such a service more satisfactory because their expectations have been properly understood and met.

These examples show that service quality is not simply about providing a service. Customers evaluate a service based on their expectations and their actual

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experience. Service quality influences customer satisfaction, loyalty, organisational reputation and long-term competitive advantage. The way an organisation understands customer needs, designs its service processes, communicates with customers and delivers the service can determine whether customers perceive the service as good or poor.

Sometimes, problems arise because management does not correctly understand what customers expect. At other times, the organisation may establish inappropriate standards, fail to deliver services according to those standards, or communicate promises that are not matched by actual performance. These differences are referred to as service quality gaps. The GAP Model provides a framework for identifying such gaps and understanding the reasons behind poor service quality.

Understanding these ideas helps answer important questions: What do customers expect from a service? Why do customers sometimes perceive a service differently from what the organisation intends? Where do service failures occur? How can organisations identify and reduce these gaps? Finding answers to these questions is essential for organisations that seek to consistently provide high-quality services.

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Keywords

Service Quality, Customer Expectations, Customer Perceptions, Customer Satisfaction, GAP Model, Knowledge Gap, Customer Gap

Discussion

4.1.1 Introduction to Service Quality

The service sector has become one of the largest and fastest-growing sectors of the global economy. Organisations such as banks, hospitals, hotels, educational institutions, airlines, insurance companies, and e-commerce platforms compete not only by offering a variety of services but also by delivering superior service experiences. In today's highly competitive business environment, customers expect services that are reliable, prompt, personalised, and capable of meeting or exceeding their expectations.

Unlike physical products, services are intangible and are often produced and consumed simultaneously. Consequently, customers evaluate a service not only by its outcome but also by the manner in which it is delivered. The behaviour of employees,

the efficiency of service processes, and the overall service environment significantly influence customers' perceptions of quality. Therefore, organisations must focus on consistently delivering high-quality services to satisfy customers, build loyalty, and achieve long-term success.

Service quality has become one of the most important determinants of customer satisfaction and competitive advantage. Organisations that consistently deliver superior service quality are more likely to retain customers, attract new customers through positive word-of-mouth, and establish a strong market reputation. As a result, understanding the concept of service quality is essential for managers seeking to improve organisational performance and create sustainable customer value.

4.1.1.1 Meaning of Service Quality

Service quality refers to the degree to which a service meets or exceeds customer expectations. It reflects customers' overall evaluation of the excellence, reliability, and effectiveness of the services provided by an organisation.

Unlike the quality of physical goods, service quality is largely based on customer perceptions because services cannot be examined before purchase. Customers assess service quality by comparing their expectations before receiving the service with their experience after the service has been delivered. When the service received meets or exceeds expectations, customers perceive the service to be of high quality. Conversely, if the service falls short of expectations, customers perceive the quality as poor.

Service quality is therefore not determined solely by the organisation but by how customers evaluate the entire service experience. It encompasses both the outcome of the service and the process through which it is delivered.

Therefore, Service quality can be defined as the extent to which the services provided by an organisation meet or exceed customer expectations, resulting in customer satisfaction and positive perceptions of the organisation.

4.1.1.2 Characteristics of Service Quality

Service quality possesses several distinctive characteristics that differentiate it from the quality of tangible products. These characteristics influence how customers evaluate services and how organisations manage service delivery.

1. Customer-Centred

Service quality is determined primarily by customers rather than the organisation. Customers evaluate quality based on their personal expectations, experiences, and perceptions. Since different customers may have different expectations, perceptions of service quality can vary from one individual to another.

2. Intangible

Service quality cannot be seen, touched, or measured physically before the service

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is consumed. Customers rely on intangible factors such as employee behaviour, responsiveness, reliability, and overall service experience to evaluate quality.

3. Perception-Based

Service quality depends largely on customer perceptions rather than objective standards. Two customers receiving the same service may evaluate its quality differently because of differences in their expectations, prior experiences, or personal preferences.

4. Dynamic

Customer expectations and market conditions constantly change over time. Consequently, service quality is dynamic and requires continuous improvement to meet evolving customer needs and technological developments.

5. Multidimensional

Service quality is influenced by several dimensions rather than a single factor. Customers evaluate quality based on factors such as reliability, responsiveness, assurance, empathy, and tangible aspects of the service environment. These dimensions collectively determine customers' overall perceptions of service quality.

6. Difficult to Measure

Unlike manufacturing quality, which can often be measured using technical specifications, service quality is difficult to measure because it depends on subjective customer perceptions and experiences. Organisations therefore use specialised models such as the GAP Model and SERVQUAL to assess service quality.

4.1.2 Concept of Service Quality

The concept of service quality is based on the idea that customers evaluate the quality of a service by comparing their expectations before receiving the service with their perceptions after experiencing the service. Unlike tangible products, where quality can often be assessed by examining physical features, service quality is largely determined by the customer's personal experience during the service encounter. Consequently, service quality is a customer-centred concept, as the final judgement regarding quality is made by the customer rather than the service provider.

Customers usually develop certain expectations before using a service. These expectations are influenced by previous experiences, advertisements, recommendations from friends and relatives, organisational reputation, pricing, and personal needs. After receiving the service, customers compare their experience with these expectations. The result of this comparison determines whether they perceive the service to be of high or low quality.

If service performance falls below customer expectations, customers perceive the service as poor quality and are likely to be dissatisfied. When the service performance matches customer expectations, customers generally consider the service acceptable and are satisfied. However, when the service exceeds customer expectations, customers

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perceive the service as being of superior quality, resulting in higher satisfaction, delight, and increased loyalty.

The concept of service quality also recognises that customers evaluate services from multiple perspectives rather than relying on a single factor. While the outcome of the service is important, customers also pay attention to the behaviour and competence of employees, the efficiency of service delivery processes, the physical environment, the responsiveness of the organisation, and the overall service experience. Thus, service quality is considered a multidimensional concept that encompasses every aspect of the interaction between the customer and the service provider.

Another important aspect of the concept is that service quality is closely related to, but different from, customer satisfaction. Customer satisfaction generally refers to a customer's immediate emotional response after a specific service encounter. In contrast, service quality reflects a broader and more enduring evaluation of the organisation's ability to consistently deliver excellent services over time. A customer may be satisfied with a single service experience but may still perceive the organisation's overall service quality as average if consistency is lacking. Conversely, organisations that consistently provide reliable and high-quality services are more likely to develop strong customer satisfaction and long-term loyalty.

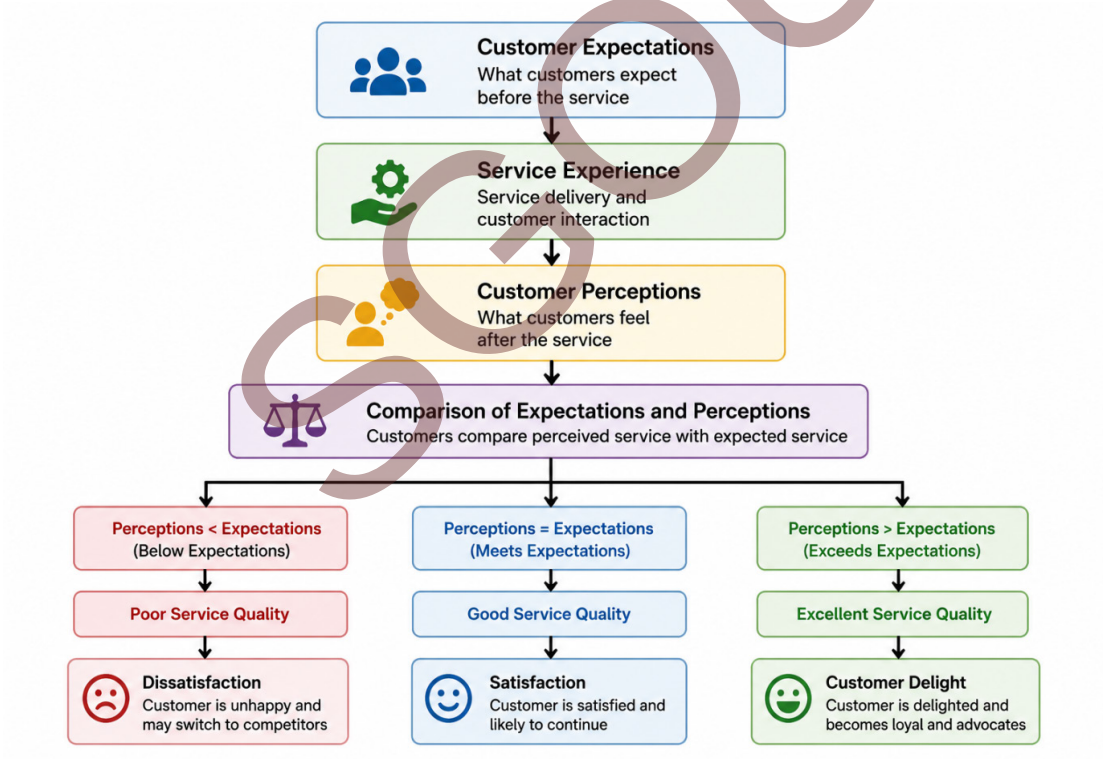


Fig 4.1.1 Concept of Service Quality

The concept of service quality also emphasises its role as a source of competitive advantage. In today's competitive business environment, many service organisations offer similar services at comparable prices. Consequently, superior service quality often becomes the distinguishing factor that influences customers' choice of one service

provider over another. Organisations that consistently deliver services beyond customer expectations develop stronger reputations, attract new customers through positive word-of-mouth, and achieve higher levels of customer retention.

Furthermore, service quality should be viewed as a continuous improvement process rather than a one-time achievement. Customer expectations constantly evolve due to technological advancements, changing lifestyles, increasing competition, and higher service standards. Organisations must therefore regularly assess customer feedback, monitor service performance, identify service deficiencies, and implement improvements to maintain high levels of service quality. Continuous employee training, technological innovation, and effective quality management practices enable organisations to respond to changing customer expectations and sustain long-term success.

In essence, the concept of service quality extends beyond simply delivering a service. It focuses on creating positive customer experiences by consistently meeting or exceeding customer expectations through reliable service delivery, competent employees, efficient processes, and a customer-oriented organisational culture. Organisations that understand and apply this concept are better equipped to build customer trust, strengthen loyalty, and achieve sustainable competitive advantage.

4.1.3 Importance of Service Quality

In today's highly competitive service environment, customers have numerous alternatives when choosing service providers. They expect organisations to deliver services that are reliable, timely, convenient, and capable of meeting their individual needs. As a result, service quality has become a key factor influencing customers' purchase decisions and their willingness to continue their relationship with an organisation.

High service quality not only satisfies customers but also enhances the organisation's reputation, improves operational performance, and contributes to long-term profitability. Conversely, poor service quality may result in customer dissatisfaction, negative word-of-mouth, and loss of business. Therefore, maintaining superior service quality has become a strategic priority for service organisations.

Importance of Service Quality to Customers

1. Meets Customer Expectations

Customers choose service providers with certain expectations regarding reliability, responsiveness, professionalism, and convenience. High service quality enables organisations to fulfil these expectations, resulting in a positive service experience. When customers consistently receive the quality they expect, they develop confidence in the organisation and are more likely to continue using its services.

2. Enhances Organisational Reputation

Organisations that consistently provide high-quality services develop a strong reputation for reliability and professionalism. A positive reputation strengthens the organisation's brand image and attracts new customers.

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3. Increases Customer Retention

Acquiring new customers is generally more expensive than retaining existing ones. High service quality encourages customers to remain with the organisation, reducing customer turnover and strengthening long-term customer relationships.

4. Creates Competitive Advantage

In many service industries, competitors offer similar services at comparable prices. Superior service quality becomes an important differentiating factor that enables organisations to gain a competitive advantage and strengthen their market position.

5. Increases Profitability

High service quality contributes to increased customer loyalty, repeat purchases, and positive word-of-mouth, all of which improve organisational revenue. At the same time, fewer customer complaints and service failures reduce operational costs, resulting in improved profitability.

6. Improves Employee Motivation

Employees take greater pride in working for organisations known for excellent service quality. Positive customer feedback and organisational recognition improve employee morale, motivation, and job satisfaction, which in turn further enhances service quality.

7. Reduces Customer Complaints

Well-designed service processes and competent employees minimise errors and service failures. As a result, organisations receive fewer complaints, spend less time resolving customer issues, and improve overall operational efficiency.

8. Supports Sustainable Growth

Organisations that consistently maintain high service quality build long-term customer relationships, strengthen their market reputation, and achieve sustainable business growth. High service quality enables organisations to adapt to changing customer expectations while maintaining customer confidence.

Service quality is no longer viewed merely as an operational responsibility but as a strategic asset. Organisations increasingly recognise that long-term success depends not only on offering attractive services but also on delivering exceptional customer experiences. High service quality strengthens customer relationships, enhances brand value, encourages innovation, and contributes to sustainable competitive advantage. Consequently, organisations invest continuously in employee training, technology, quality management systems, and customer feedback mechanisms to maintain superior service quality.

4.1.4 GAP Model

Providing high-quality services is one of the primary objectives of every service

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organisation. However, despite careful planning and significant investment in infrastructure and employees, organisations often fail to satisfy customers. Customers may perceive the service to be of poor quality even when the organisation believes that it has delivered an excellent service. This difference arises because customers evaluate services based on their expectations and actual experiences, whereas organisations often focus on their internal processes and performance standards.

To understand the reasons behind such differences, researchers A. Parasuraman, Valarie Zeithaml, and Leonard Berry developed the GAP Model of Service Quality during the 1980s. The model explains that poor service quality is usually the result of one or more gaps occurring during the service delivery process. By identifying these gaps, organisations can understand where service failures occur and implement corrective measures to improve customer satisfaction.

The GAP Model is one of the most widely used frameworks for analysing service quality because it helps managers identify weaknesses in service design, communication, delivery, and customer understanding. It also serves as the theoretical foundation for the development of the SERVQUAL model, which is discussed later in this unit.

4.1.4.1 Meaning of the GAP Model

The GAP Model of Service Quality is a conceptual framework that explains how differences or "gaps" between customer expectations and organisational performance affect customers' perceptions of service quality. It identifies the points at which service failures may occur and provides a systematic approach for improving service quality.

According to the model, organisations can achieve superior service quality only when they clearly understand customer expectations, establish appropriate service standards, deliver services according to those standards, and communicate honestly with customers. Any failure at these stages creates a gap that ultimately influences customers' perceptions of service quality.

The GAP Model of Service Quality can be defined as a framework that identifies the gaps between customer expectations and the organisation's service delivery process, enabling managers to identify the causes of poor service quality and implement appropriate improvements.

Need for the GAP Model

The GAP Model was developed to help organisations understand why customers sometimes perceive service quality differently from what the organisation intends to deliver. It enables managers to identify weaknesses in customer understanding, service design, service delivery, and communication. By analysing these gaps, organisations can improve service quality, enhance customer satisfaction, reduce complaints, and build long-term customer relationships.

The GAP Model identifies five major gaps that may occur during the service delivery process. While the first four gaps arise within the organisation, the fifth gap represents

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the difference between customer expectations and customer perceptions. Understanding each of these gaps helps managers identify the root causes of service quality problems and develop effective strategies to eliminate them.

4.1.4.2 The Five Service Quality Gaps

The GAP Model identifies five major gaps that may occur during the service delivery process. These gaps represent differences between customer expectations and the organisation's understanding, planning, communication, and delivery of services. The first four gaps occur within the organisation and are largely under the control of management. If these internal gaps are not effectively addressed, they eventually result in the fifth gap, which directly affects customers' perceptions of service quality.



Fig 4.1.2 Service Quality Gaps

Each of these gaps is discussed below.

1. Knowledge Gap

The Knowledge Gap refers to the difference between what customers expect and what management believes customers expect. This gap occurs when managers fail to accurately understand customer needs, preferences, and expectations.

In many organisations, managers make assumptions about customer requirements instead of collecting accurate information through market research, customer feedback, or direct interaction. As a result, services may be designed based on incorrect assumptions, leading to customer dissatisfaction.

For example, a hotel may assume that customers primarily value luxurious rooms, whereas customers may actually place greater importance on fast check-in, cleanliness, and courteous staff. Because management misunderstands customer priorities, the service fails to meet customer expectations.

The Knowledge Gap may arise due to several reasons such as:

- ◊ Inadequate market research
- ◊ Lack of customer feedback
- ◊ Poor communication between frontline employees and management
- ◊ Failure to understand changing customer expectations
- ◊ Overreliance on managerial assumptions

Organisations can minimise the Knowledge Gap by conducting regular customer surveys, encouraging customer feedback, analysing customer complaints, maintaining close interaction with customers, and improving communication between frontline employees and management.

2. Policy (Standards) Gap

The Policy Gap, also known as the Standards Gap, refers to the difference between management's understanding of customer expectations and the service standards established by the organisation.

Even when managers correctly understand customer expectations, they may fail to develop appropriate service policies, procedures, or performance standards. Consequently, employees may not receive clear guidelines regarding the expected level of service.

For example, a bank may recognise that customers expect quick service but may not establish any standard regarding the maximum waiting time for customers. Without clear service standards, employees may deliver services inconsistently.

This gap may arise because of poor service planning, lack of clearly defined service standards, inadequate management commitment, resource constraints, etc.

The Policy Gap can be reduced by establishing clear service standards, developing standard operating procedures (SOPs), setting measurable performance targets, and ensuring strong management commitment to service quality.

3. Delivery Gap

The Delivery Gap refers to the difference between the established service standards and the actual service delivered by employees.

Although organisations may develop excellent service standards, employees may fail to deliver services according to these standards because of inadequate training, lack of motivation, insufficient resources, or operational problems.

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For example, a hospital may establish a policy that patients should be attended to within ten minutes of arrival. However, due to staff shortages or inefficient work processes, patients may wait much longer.

Inadequate employee training, lack of employee motivation, insufficient staffing, poor teamwork, ineffective supervision, inadequate technology or equipment can be the reasons for the delivery gap.

4. Communication Gap

The Communication Gap refers to the difference between the service actually delivered and what the organisation promises through advertisements, promotional campaigns, or other communications.

Sometimes organisations make exaggerated promises to attract customers. If the actual service fails to match these promises, customers become disappointed even if the service itself is satisfactory.

The Communication Gap may arise due to:

- ◊ Over-promising in advertisements
- ◊ Lack of coordination between marketing and operations departments
- ◊ Misleading promotional messages
- ◊ Failure to update customers regarding service limitations

For example, a courier company advertises "same-day delivery" but frequently delivers parcels after two or three days. The gap between the promise and actual performance creates customer dissatisfaction.

Organisations should communicate honestly, ensure coordination between marketing and operations, avoid unrealistic promises, and provide customers with accurate information about service capabilities to reduce the communication gap.

5. Customer Gap

The Customer Gap is the most important in the model. It refers to the difference between customer expectations and customer perceptions of the actual service received.

This gap represents the customer's overall evaluation of service quality. If customer perceptions are lower than expectations, customers become dissatisfied. If perceptions match expectations, customers are satisfied. When perceptions exceed expectations, customers are delighted and are more likely to become loyal.

The Customer Gap is largely influenced by the first four gaps. Therefore, organisations can minimise the Customer Gap only by effectively managing the Knowledge Gap, Policy Gap, Delivery Gap, and Communication Gap.

For example, if an airline understands customer expectations, establishes clear service standards, delivers services efficiently, and communicates honestly, customers

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are likely to perceive the service as high quality.

Organisations should regularly measure customer satisfaction, monitor service quality, improve internal communication, strengthen employee training, and continuously review customer expectations to ensure that service performance meets or exceeds customer expectations.

The five gaps identified in the GAP Model demonstrate that poor service quality rarely results from a single problem. Instead, it is usually the outcome of several interconnected shortcomings within the organisation, ranging from misunderstanding customer expectations to failing to deliver or communicate services effectively. By systematically identifying and reducing these gaps, organisations can enhance service quality, improve customer satisfaction, strengthen customer loyalty, and build a sustainable competitive advantage. Building on this understanding, organisations also need reliable methods to measure customers' perceptions of service quality. One of the most widely used tools for this purpose is the SERVQUAL model, which is discussed in the next section.

Recap

- ◊ Service quality refers to the extent to which a service meets or exceeds customer expectations and is primarily evaluated from the customer's perspective.
- ◊ Service quality is characterised by being customer-centred, intangible, perception-based, dynamic, multidimensional, and difficult to measure.
- ◊ The concept of service quality is based on comparing customer expectations before receiving a service with customer perceptions after experiencing it.
- ◊ High service quality enhances customer satisfaction, customer loyalty, organisational reputation, and sustainable competitive advantage.
- ◊ The GAP Model of Service Quality explains that poor service quality arises because of gaps between customer expectations and different stages of the service delivery process.
- ◊ The GAP Model identifies five service quality gaps: Knowledge Gap, Policy (Standards) Gap, Delivery Gap, Communication Gap, and Customer Gap.
- ◊ The Customer Gap is the most significant gap, as it represents the difference between customers' expectations and their perceptions of the actual service received.

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Objective Questions

1. What is meant by service quality?
2. Why is service quality considered customer-centred?
3. How do customers evaluate service quality?
4. What is the significance of service quality for service organisations?
5. What is the GAP Model of Service Quality?
6. Name the five gaps identified in the GAP Model of Service Quality.
7. What is the Customer Gap in the GAP Model?

Answers

1. Service quality refers to the extent to which the services provided by an organisation meet or exceed customer expectations.
2. Service quality is considered customer-centred because it is determined by customers' perceptions and experiences rather than by the organisation's own assessment of its services.
3. Customers evaluate service quality by comparing their expectations before receiving the service with their perceptions after experiencing the service.
4. Service quality is significant because it enhances customer satisfaction, builds customer loyalty, strengthens organisational reputation, and provides a sustainable competitive advantage.
5. The GAP Model of Service Quality is a framework that identifies the gaps between customer expectations and the organisation's service delivery process to explain the causes of poor service quality.
6. The five gaps identified in the GAP Model are Knowledge Gap, Policy (Standards) Gap, Delivery Gap, Communication Gap, and Customer Gap.
7. The Customer Gap is the difference between customers' expectations of a service and their perceptions of the actual service received.

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Self Assessment Questions

1. Explain the concept of service quality. How do customer expectations and perceptions influence the evaluation of service quality?
2. Discuss the major characteristics of service quality. How do these characteristics distinguish services from tangible products?
3. Why is service quality considered a strategic asset for service organisations? Explain its importance from both the customer and organisational perspectives.
4. Describe the GAP Model of Service Quality. How does it help organisations identify and improve service quality problems?
5. Explain the five service quality gaps identified in the GAP Model with suitable examples.
6. Why is the Customer Gap considered the most critical gap in the GAP Model? How is it influenced by the other four gaps?

Assignments

1. A private hospital receives complaints about long waiting times, poor communication, and inconsistent service despite having modern facilities. Analyse the situation using the concepts of the GAP Model and SERVQUAL dimensions, and suggest how the hospital can improve its service quality.
2. Service quality has become a key source of competitive advantage for service organisations. Analyse how organisations can enhance customer satisfaction and long-term success by consistently delivering high-quality services.
3. The GAP Model of Service Quality helps organisations identify the causes of poor service performance. Analyse the five service quality gaps and explain how reducing these gaps can improve customer satisfaction and organisational performance.

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Unit - 2

Delivering High-Quality Services and Emerging Trends

Learning Outcomes

On completion of this unit, learners will be able to:

- ◊ explain the five dimensions of the SERVQUAL model and their role in evaluating service quality.
- ◊ describe the importance of delivering high-quality services and identify techniques for reducing or bridging service gaps.
- ◊ explain the quality gap by examining the difference between customer expectations and the actual service experienced.
- ◊ analyse the performance gap by examining the difference between service promises and actual service delivery.

Prerequisite

Imagine that Anu is planning to stay at a newly opened hotel for a weekend. Before making the booking, she sees an advertisement describing comfortable rooms, quick service, helpful staff, and personalised attention. These promises create certain expectations in her mind about the service she is going to receive.

When Anu arrives at the hotel, she finds that the rooms are attractive and the facilities are modern. However, she has to wait for a long time to complete the check-in process. Later, when she requests room service, there is considerable delay. The staff are polite, but they are unable to respond quickly to her requests. Although the hotel has good facilities, Anu feels that the overall service has not met her expectations.

The hotel management, however, believes that it has provided good service. This situation raises an important question: Why can an organisation believe that it is providing good service while a customer remains dissatisfied?

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Customers do not judge service quality only by looking at the facilities provided by an organisation. They also consider whether the service is reliable, whether employees are responsive, whether they create trust and confidence, and whether they show care and individual attention. These aspects are represented by the five SERVQUAL dimensions: Tangibles, Reliability, Responsiveness, Assurance and Empathy.

Anu's experience also illustrates how differences or gaps can arise in service delivery. What customers expect may differ from what they actually experience. Similarly, what an organisation communicates or promises may differ from what it actually delivers. Such gaps can influence customers' perceptions of service quality and their satisfaction with the organisation.

For a service organisation, therefore, providing good facilities alone is not enough. It must understand customer expectations, establish appropriate service standards, deliver the promised service effectively, communicate honestly, and continuously identify and reduce gaps in service delivery. When the actual service meets or exceeds customer expectations, the organisation is more likely to achieve customer satisfaction, loyalty and long-term success.

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Keywords

SERVQUAL, Service Quality, Tangibles, Reliability, Responsiveness, Assurance, Empathy, Service Gap, Quality Gap, Performance Gap

Discussion

Introduction

The success of a service organisation depends not only on the services it offers but also on how effectively those services are delivered. Customers evaluate their experiences based on every interaction they have with the organisation, including employee behaviour, service processes, response time, and the organisation's ability to meet their expectations. As a result, delivering high-quality services has become an essential requirement for building customer satisfaction, trust, and long-term relationships.

High-quality service delivery requires organisations to focus on every stage of the customer journey, from understanding customer needs to providing efficient service and handling post-service interactions. It involves the combined efforts of employees,

management, technology, service processes, and organisational culture. Since services are produced and consumed simultaneously, every interaction between employees and customers has the potential to influence customers' perceptions of service quality.

Organisations that consistently deliver superior services strengthen their reputation, reduce customer complaints, encourage repeat purchase, and gain a sustainable competitive advantage. On the other hand, poor service delivery can quickly damage customer trust and lead to customer switching, particularly in industries where numerous alternatives are available.

Meaning - Delivery of High-quality service

Delivering high-quality services refers to the process of providing services that consistently meet or exceed customer expectations through efficient service delivery, professional employee behaviour, reliable service processes, and continuous improvement. It involves ensuring that every interaction between the organisation and its customers creates value and contributes to a positive service experience.

Unlike tangible products, services are experienced rather than possessed. Consequently, customers evaluate service quality not only by the outcome but also by the manner in which the service is delivered. Factors such as employee responsiveness, courtesy, competence, waiting time, communication, and problem resolution significantly influence customers' perceptions of service quality. Therefore, delivering high-quality services requires organisations to pay equal attention to both what is delivered and how it is delivered.

High-quality service delivery is achieved when organisations understand customer expectations, establish appropriate service standards, empower employees, utilise suitable technologies, and continuously monitor service performance. It requires coordination among people, processes, and technology to ensure that customers receive consistent, reliable, and satisfactory services at every stage of the service encounter.

Delivering high-quality services also involves creating positive customer experiences that encourage trust, satisfaction, and long-term relationships. Organisations that consistently provide dependable and customer-oriented services are more likely to retain existing customers, attract new customers through positive word-of-mouth, and strengthen their market position.

In essence, delivering high-quality services is not a single activity but a continuous organisational commitment to meeting customer needs, improving service performance, and creating superior customer value through every service interaction.

Delivering high-quality services is fundamental to the success of every service organisation. It not only influences customers' perceptions of the organisation but also determines whether they continue the relationship in the future. Understanding its significance enables organisations to recognise why continuous improvements in service delivery are essential. The following section discusses the importance of delivering high-quality services for both customers and service organisations.

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4.2.1 Importance of Delivering High-Quality Services

Delivering high-quality services is essential for the success and sustainability of every service organisation. As customers become more informed and their expectations continue to evolve, organisations must focus on providing services that create value and memorable experiences. High-quality service delivery not only satisfies customers but also strengthens the organisation's reputation, improves operational performance, and contributes to long-term growth. The importance of delivering high-quality services can be understood from the following perspectives.

1. Enhances Customer Satisfaction

Customers expect services to be delivered accurately, promptly, and professionally. When organisations consistently fulfil these expectations, customers are more likely to be satisfied with the service experience. Satisfied customers are also more likely to continue using the organisation's services.

2. Builds Customer Loyalty

Customers who consistently receive high quality services develop confidence in the organisation and are less likely to switch to competitors. Loyal customers often make repeat purchases and maintain long-term relationships with the organisation, providing a stable source of revenue.

3. Strengthens Organisational Reputation

Service quality significantly influences how customers perceive an organisation. Organisations known for consistently delivering superior services develop a positive reputation in the marketplace. A strong reputation enhances customer trust and attracts new customers through positive recommendations and word-of-mouth.

4. Creates Competitive Advantage

Many service organisations offer similar services at comparable prices. In such situations, service quality becomes an important factor that differentiates one organisation from another. Organisations that consistently provide superior service gain a competitive advantage and strengthen their position in the market.

5. Encourages Continuous Improvement

Delivering high-quality services requires organisations to regularly evaluate customer feedback, monitor service performance, and identify areas requiring improvement. This encourages a culture of continuous learning and innovation, enabling organisations to adapt to changing customer expectations.

6. Supports Long-Term Organisational Growth

Consistent service quality helps organisations build lasting customer relationships, strengthen brand value, and improve customer retention. These outcomes contribute to sustainable growth and ensure long-term success in the service sector.

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4.2.2 Strategies for Delivering High-Quality Services

Delivering high-quality services requires a systematic and customer-oriented approach. Service organisations must continuously improve their service delivery processes, develop employee capabilities, and utilise appropriate technologies to ensure that customer expectations are consistently met. Some of the important strategies for delivering high-quality services are discussed below.

1. Adopting a Customer-Centric Approach

Customers should be the primary focus of all service delivery activities. Organisations must understand customer needs, expectations, and preferences through regular feedback, market research, and customer interactions. Designing services from the customer's perspective helps improve satisfaction and strengthen long-term relationships.

2. Training and Empowering Employees

Employees play a vital role in service delivery because they interact directly with customers. Regular training enhances employees' knowledge, communication skills, and problem-solving abilities. Empowering employees to make appropriate decisions during service encounters enables quicker resolution of customer issues and improves the overall service experience.

3. Standardising Service Processes

Well-defined service procedures ensure that services are delivered consistently across different employees, branches, and service encounters. Standard operating procedures (SOPs), service quality standards, and performance guidelines help reduce errors and maintain uniform service quality.

4. Leveraging Technology

Modern technologies such as digital platforms, mobile applications, Artificial Intelligence (AI), self-service technologies, and customer relationship management (CRM) systems improve service efficiency and customer convenience. Technology also enables organisations to provide faster, more accurate, and personalised services.

5. Monitoring Customer Feedback

Customer feedback provides valuable information about service performance and customer expectations. Organisations should regularly collect feedback through surveys, online reviews, complaint management systems, and social media interactions. Analysing this feedback helps identify service deficiencies and implement continuous improvements.

6. Implementing Effective Service Recovery

Despite careful planning, service failures may occasionally occur. Organisations should respond promptly to customer complaints, apologise where appropriate, provide suitable solutions, and take corrective actions to prevent similar problems in the future.

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Effective service recovery restores customer confidence and strengthens long-term relationships.

4.2.3 Techniques to Bridge Service Gaps

Service organisations often face a difference between what customers expect, what the organisation promises, and what customers actually experience. These differences are commonly referred to as service gaps. A service gap can reduce customer satisfaction, weaken customer trust, increase complaints, and encourage customers to switch to competitors.

The objective of service management is not merely to identify these gaps but also to reduce or bridge them. Organisations can bridge service gaps by understanding customer expectations, establishing appropriate standards, improving employee performance, communicating realistically, and continuously monitoring customer feedback.

The following techniques are useful for reducing service gaps:

1. Understanding Customer Expectations

The first step in reducing service gaps is to understand what customers actually expect from the service. Organisations should not depend only on managerial assumptions. They should collect information directly from customers through surveys, interviews, feedback forms, online reviews, complaint records, and social media interactions.

Example:

A hospital may discover through patient feedback that customers are more concerned about waiting time and communication than the availability of advanced medical equipment. The hospital can then redesign its service process accordingly.

2. Establishing Clear Service Standards

Customer expectations should be converted into specific and measurable service standards. Clear standards provide employees with a definite understanding of what level of service is expected.

For example, a bank may establish standards such as:

- ◊ Customers should be attended to within ten minutes.
- ◊ Telephone enquiries should be answered promptly.
- ◊ Complaints should receive an initial response within 24 hours.

Such standards make service performance easier to monitor and improve.

3. Training and Empowering Employees

Employees have a direct influence on service quality, particularly in high-contact services. Organisations should provide regular training in communication, technical

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skills, problem-solving, customer handling, and complaint management.

Employees should also be given suitable authority to solve routine customer problems without unnecessary managerial approval.

For example, a hotel may authorise front-office employees to provide a small service recovery benefit when a guest faces a minor service failure. This enables the employee to resolve the problem immediately.

4. Improving Internal Communication

Effective communication between management, marketing personnel, operational departments, and frontline employees is essential. Employees should clearly understand the services being promoted, the promises made to customers, and the organisation's service standards.

Poor internal communication may result in a situation where marketing promises a service that employees are not prepared or authorised to provide.

5. Matching Promises with Actual Capabilities

Organisations should make only those promises that they can realistically fulfil. Advertisements and promotional messages should accurately represent the organisation's service capabilities.

Example:

If a courier company cannot guarantee delivery within 24 hours to all locations, it should not advertise "24-hour delivery everywhere." Instead, it should clearly specify the locations and conditions under which the service is available.

6. Continuous Monitoring of Service Performance

Organisations should regularly compare actual service performance with established standards and customer expectations. Key performance indicators, customer complaints, feedback scores, waiting time, response time, and service failure rates can be monitored.

Continuous monitoring enables organisations to identify problems before they become major sources of customer dissatisfaction.

7. Effective Service Recovery

Service failures cannot always be completely avoided. Therefore, organisations should have effective systems for handling failures when they occur.

Service recovery may include:

◊ listening to the customer;

◊ acknowledging the problem;

◊ apologising where appropriate;

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- ◊ providing a suitable solution;
- ◊ compensating the customer when justified; and
- ◊ taking corrective action to prevent recurrence

Effective service recovery can restore customer confidence and sometimes even strengthen the customer relationship.

8. Using Technology to Reduce Service Gaps

Technology can help organisations monitor service performance and improve consistency. Customer Relationship Management (CRM) systems, mobile applications, chatbots, automated notifications, online feedback systems, and data analytics can provide timely information about customer needs and service performance.

Example: An airline can use a mobile application to provide passengers with real-time information about flight delays, boarding gates, and baggage collection. This reduces uncertainty and improves the customer experience.

9. Regularly Reviewing Customer Feedback

Customer expectations are dynamic and may change because of technological developments, competition, lifestyle changes, and improved services offered by competitors. Organisations should therefore review customer feedback regularly rather than relying on old information.

The feedback should be converted into specific improvements in service design and delivery.

10. Creating a Culture of Continuous Improvement

Bridging service gaps should not be treated as a one-time activity. Organisations should continuously review their service processes, identify weaknesses, implement improvements, and evaluate the results.

4.2.4 Quality Gap – Customer Expectations versus Actual Service

The Quality Gap refers to the difference between the level of service that customers expect and the service they actually experience or perceive after receiving it.

In simple terms:

Quality Gap = Customer Expectations – Customer Perception of Actual Service

Customers generally compare the service they expected with the service they actually experienced. When actual service is below expectations, a negative quality gap occurs and customers are likely to become dissatisfied. When actual service matches expectations, customers are generally satisfied. When actual service exceeds expectations, customers may experience delight.

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4.2.4.1 Understanding the Quality Gap

Consider a customer who visits a hotel expecting:

- ◊ quick check-in;
- ◊ clean and comfortable rooms;
- ◊ courteous employees; and
- ◊ prompt response to requests

If the customer experiences long waiting times, an unclean room, and slow responses from employees, the actual experience is below the expected level. This creates a negative quality gap.

On the other hand, if the hotel provides faster service, personalised attention, and additional facilities beyond what the customer expected, the customer's perception may exceed expectations, resulting in a positive service experience.

4.2.4.2 Causes of Quality Gap

The quality gap may arise because of:

1. misunderstanding customer expectations;
2. poorly designed service processes;
3. inadequate service standards;
4. employee performance problems;
5. insufficient resources;
6. poor communication;
7. long waiting times;
8. ineffective complaint handling; and
9. failure to adapt to changing customer expectations.

4.2.4.3 Techniques to Reduce the Quality Gap

Organisations can reduce the quality gap by:

- ◊ conducting regular customer research;
- ◊ collecting and analysing feedback;
- ◊ setting measurable service standards;
- ◊ training employees;

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- ◊ improving service processes;
- ◊ reducing waiting time;
- ◊ monitoring customer satisfaction;
- ◊ resolving complaints quickly; and
- ◊ continuously improving the service based on customer expectations.

4.2.5 Performance Gap – Promise versus Delivery

The Performance Gap refers to the difference between what an organisation promises to customers and what it actually delivers.

In simple terms:

Performance Gap = Service Promise – Actual Service Delivery

Service organisations make promises through advertising, sales promotion, websites, social media, personal selling, and other forms of communication. Customers develop expectations based on these promises. If the organisation fails to deliver what it has promised, a performance gap arises.

This concept is closely related to the Communication Gap already discussed in the course, where the difference exists between the service actually delivered and what the organisation promises through advertisements and promotional communication.

Example: Suppose a hotel advertises:

"24-hour room service and instant customer support."

A customer books the hotel based on this promise. However, when the customer requests room service at night, the hotel informs the customer that room service is unavailable.

Here, the organisation's promise and actual delivery are different. This creates a performance gap.

4.2.5.1 Causes of Performance Gap

The performance gap may occur because of:

1. The organisation makes promises that are higher than what it can realistically deliver.
2. Employees may not possess the knowledge or skills necessary to deliver the promised service.
3. Shortage of employees, equipment, technology, or other resources may prevent the organisation from fulfilling its promises.

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4. Marketing departments may communicate promises without adequately coordinating with operations.
5. Breakdowns in processes, technology, scheduling, or supervision may affect actual service delivery.
6. Employees who are poorly motivated may not make sufficient effort to deliver the promised level of service.
7. Unexpected circumstances such as heavy demand, technical failures, staff shortages, or emergencies may affect service delivery.

4.2.5.2 Effects of Performance Gap

A large performance gap can result in:

1. customer dissatisfaction;
2. loss of customer trust;
3. increased complaints;
4. negative online reviews;
5. negative word-of-mouth;
6. customer switching;
7. damage to brand reputation; and
8. loss of revenue.

4.2.5.3 Techniques to Reduce the Performance Gap

Organisations can reduce the performance gap through the following measures:

1. **Make realistic promises**: Marketing communications should reflect what the organisation can actually deliver.
2. **Coordinate marketing and operations**: Marketing departments should consult operational teams before making service promises.
3. **Train employees**: Employees should be trained to deliver the promised level of service.
4. **Establish service standards**: Specific and measurable standards should be established for service delivery.
5. **Provide adequate resources**: There should have sufficient staff, technology, equipment, and information to perform the duties.
6. **Empower frontline employees**: Employees should have appropriate authority to respond to customer needs and resolve routine problems.

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7. **Monitor actual performance**: Organisations should compare actual performance with promised service standards.

8. **Communicate service limitations honestly**: If certain services are subject to conditions or limitations, customers should be informed clearly in advance.

4.2.6 SERVQUAL Dimensions

While the GAP Model helps organisations identify the reasons for service quality problems, managers also need a systematic method to measure how customers evaluate the quality of the services they receive. Since service quality is largely based on customer perceptions rather than objective standards, measuring it can be challenging. To address this issue, A. Parasuraman, Valarie Zeithaml, and Leonard Berry developed the SERVQUAL model, one of the most widely used instruments for measuring service quality.

The SERVQUAL model was originally developed with ten dimensions of service quality. However, subsequent research by Parasuraman, Zeithaml, and Berry found that several dimensions overlapped. Consequently, the model was refined and consolidated into five core dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy, which are now widely accepted for measuring service quality.

The SERVQUAL model evaluates service quality by comparing customers' expectations of a service with their perceptions of the service actually received. It identifies the areas in which an organisation performs well and the areas requiring improvement. By measuring customers' experiences across five key dimensions, the model provides valuable insights for improving service quality and customer satisfaction.

Today, SERVQUAL is widely applied in industries such as banking, healthcare, hospitality, education, retailing, insurance, transportation, and telecommunications to assess service performance and identify quality gaps.

4.2.6.1 Meaning of SERVQUAL

SERVQUAL is a service quality measurement model that assesses the quality of services by comparing customers' expectations before receiving a service with their perceptions after experiencing it. The model assumes that customers evaluate service quality based on several dimensions rather than a single factor.

A positive difference between perceptions and expectations indicates high service quality, while a negative difference suggests that the organisation needs to improve its service delivery.

SERVQUAL can be defined as a multidimensional instrument used to measure service quality by comparing customers' expectations of a service with their perceptions of the actual service received across five dimensions.

The SERVQUAL model helps organisations understand how customers perceive the

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quality of their services. This model measures service quality using five dimensions that collectively represent the key aspects of customers' service experiences. Each dimension focuses on a different aspect of service delivery and contributes to customers' overall perception of service quality. These five dimensions are Tangibles, Reliability, Responsiveness, Assurance, and Empathy, commonly remembered using the acronym RATER (Reliability, Assurance, Tangibles, Empathy, and Responsiveness). These dimensions are discussed in the following section.

4.2.6.2 Dimensions of SERVQUAL

The SERVQUAL model identifies five dimensions that customers use to evaluate the quality of services provided by an organisation. Each dimension represents a specific aspect of the service experience, and together they provide a comprehensive framework for assessing service quality. By understanding these dimensions, organisations can identify areas requiring improvement and develop strategies to enhance customer satisfaction. The five SERVQUAL dimensions are discussed below.



Fig 4.1.3 Dimensions of SERVQUAL

1. Tangibles

Tangibles refer to the physical appearance and visible aspects of a service that customers can observe before and during service delivery. Since services are intangible in nature, customers often rely on tangible cues to form an impression about the quality of the service and the professionalism of the organisation.

Tangibles include the physical facilities, equipment, employee appearance, communication materials, and other visible elements associated with the service. These factors influence customers' first impressions and contribute significantly to their overall perception of service quality.

For example, a hospital with clean premises, modern medical equipment,

professionally dressed staff, and well-maintained waiting areas is likely to create greater confidence among patients than a hospital with outdated facilities and poor maintenance.

Tangibles create a positive first impression and provide customers with visible evidence of the organisation's commitment to quality. Clean facilities, modern equipment, attractive interiors, and professional employee appearance enhance customer confidence, strengthen the organisation's image, and support a positive service experience.

2. Reliability

Reliability refers to the ability of a service organisation to perform the promised service accurately, consistently, and dependably. It involves delivering the right service at the right time while fulfilling commitments made to customers without errors.

Reliability is often regarded as the most important dimension of service quality because customers expect organisations to provide services exactly as promised. Consistent and dependable service delivery strengthens customer trust and confidence.

For example, a courier company that consistently delivers parcels on the promised date or a bank that accurately processes customer transactions demonstrates reliability.

Reliability strengthens customer trust by ensuring that services are delivered accurately and consistently. It reduces customer complaints, improves organisational credibility, encourages repeat purchase, and contributes significantly to long-term customer relationships.

3. Responsiveness

Responsiveness refers to the willingness and readiness of employees to assist customers and provide prompt service. It reflects how quickly and effectively an organisation responds to customer requests, enquiries, complaints, and service needs.

Customers appreciate organisations that are accessible, responsive, and capable of resolving issues without unnecessary delays.

Responsiveness enhances customer satisfaction by reducing waiting time and ensuring timely assistance. It demonstrates the organisation's commitment to customer care, strengthens customer confidence, and creates positive service experiences.

For example, a customer service executive who immediately addresses a customer's complaint or a restaurant that promptly serves customers during busy hours demonstrates responsiveness.

4. Assurance

Assurance refers to the knowledge, competence, courtesy, and professionalism of employees, as well as their ability to inspire trust and confidence among customers. It reflects customers' belief that employees possess the necessary expertise to deliver services effectively and ethically.

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Assurance is particularly important in services such as healthcare, banking, insurance, and education, where customers depend heavily on the competence and credibility of service providers.

For example, a doctor who confidently explains a treatment procedure or a financial advisor who provides accurate investment guidance creates assurance among customers.

Assurance reduces customer uncertainty and builds trust in the organisation. Knowledgeable and courteous employees increase customer confidence, enhance organisational credibility, and contribute to stronger customer relationships.

5. Empathy

Empathy refers to the ability of a service organisation to provide caring, personalised, and individual attention to customers. It involves understanding customers' unique needs, listening to their concerns, and treating them with respect and compassion.

Organisations demonstrating empathy recognise that different customers may require different levels of support and strive to provide services that meet individual needs.

For example, a hospital providing special assistance to elderly patients or a bank offering personalised financial advice based on individual customer requirements demonstrates empathy.

Empathy helps customers feel valued and understood. Personalised attention strengthens customer relationships, improves customer satisfaction, builds loyalty, and encourages positive word-of-mouth. Organisations that genuinely care about their customers often develop stronger emotional connections and long-term customer trust.

The five SERVQUAL dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy provide a comprehensive framework for evaluating service quality from the customer's perspective. Each dimension focuses on a unique aspect of service delivery, yet all five work together to shape customers' overall perceptions of service quality. Organisations that consistently perform well across these dimensions are better positioned to satisfy customer expectations, strengthen customer relationships, and achieve long-term success in an increasingly competitive service environment.

Service quality has become a critical factor in the success of service organisations because it directly influences customer satisfaction, loyalty, and organisational performance. Understanding the concept of service quality enables organisations to recognise the importance of consistently meeting or exceeding customer expectations. The GAP Model provides valuable insights into the possible causes of service quality deficiencies by identifying gaps that may occur during the service delivery process. Complementing this, the SERVQUAL model offers a practical framework for evaluating service quality through the five dimensions of Tangibles, Reliability, Responsiveness, Assurance, and Empathy. Together, these concepts help organisations assess, monitor, and improve their service performance. By continuously focusing on service quality, organisations can strengthen customer relationships, enhance their reputation, and

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achieve sustainable competitive advantage in an increasingly competitive service environment.

Table 4.1.1 Comparison between the GAP Model and SERVQUAL

Basis of Comparison	GAP Model of Service Quality	SERVQUAL Model
Meaning	A conceptual framework that identifies the gaps responsible for poor service quality.	A measurement model that evaluates service quality from the customer's perspective.
Primary Purpose	To identify the causes of service quality deficiencies.	To measure customers' perceptions of service quality.
Focus	Internal service delivery process and organisational gaps.	Customers' expectations and perceptions of service quality.
Approach	Diagnostic approach for identifying service quality problems.	Evaluation approach for assessing service quality performance.
Main Components	Five service quality gaps (Knowledge, Policy, Delivery, Communication, and Customer Gap).	Five service quality dimensions (Tangibles, Reliability, Responsiveness, Assurance, and Empathy).
Application	Helps managers identify where service failures occur and improve internal processes.	Helps organisations assess customer perceptions and identify areas requiring service improvement.
Outcome	Improves service delivery by reducing internal gaps.	Enhances customer satisfaction by improving service quality across the five dimensions.

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Case Study

Improving Service Quality at CityCare Hospital

CityCare Hospital is one of the leading private hospitals in the city. It has experienced doctors, advanced medical equipment, and modern infrastructure. Despite these strengths, the hospital has recently received an increasing number of customer complaints. Patients have reported long waiting times for consultations, delays in billing, inadequate communication from hospital staff, and difficulty in obtaining information about appointments. Some patients also feel that employees do not provide individual attention, particularly during busy hours.

The hospital management believes that the quality of medical treatment is excellent. However, patient satisfaction surveys indicate that many patients are dissatisfied with their overall service experience. To improve service quality, the management has decided to review its service delivery process and identify the possible causes of customer dissatisfaction.

Think and Discuss

1. Which service quality gaps in the GAP Model are most likely to exist in this hospital?
2. Which SERVQUAL dimensions require the greatest improvement? Give reasons.
3. Suggest suitable measures that the hospital can adopt to improve service quality and customer satisfaction.
4. How can improving service quality strengthen the hospital's competitive advantage?

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Recap

- ◊ Service quality is evaluated mainly from the customer's perspective by comparing customer expectations with their perceptions of the service received.
- ◊ High-quality service delivery requires organisations to understand customer expectations and consistently meet or exceed them.
- ◊ SERVQUAL is a widely used model for measuring service quality from the customer's perspective.
- ◊ The five SERVQUAL dimensions are Tangibles, Reliability, Responsiveness, Assurance and Empathy.
- ◊ Tangibles refer to the physical facilities, equipment, appearance of employees and other visible aspects of service delivery.
- ◊ Reliability, Responsiveness, Assurance and Empathy reflect dependable service, prompt assistance, employee competence and trust, and caring individual attention respectively.
- ◊ Organisations can improve service quality by understanding customer expectations, establishing clear standards, training employees, using technology and continuously monitoring service performance.
- ◊ Service gaps indicate differences that may arise between customer expectations and different stages of the organisation's service delivery process.
- ◊ The quality gap occurs when there is a difference between customer expectations and their perception of the actual service received.
- ◊ The performance gap occurs when the service promised by an organisation does not match the service actually delivered, making honest communication and effective service delivery essential.
- ◊ SERVQUAL is a multidimensional service quality measurement model that compares customers' expectations with their perceptions of the actual service received.
- ◊ The five dimensions of the SERVQUAL model are Tangibles, Reliability, Responsiveness, Assurance, and Empathy.
- ◊ The SERVQUAL model is important because it helps organisations measure customers' perceptions of service quality, identify areas requiring improvement, and enhance overall service performance and customer satisfaction.

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Objective Questions

1. What is meant by a quality gap in service marketing?
2. What is meant by a performance gap?
3. Mention any two techniques for reducing service gaps.
4. What happens when actual service is lower than customer expectations?
5. Mention any two causes of a performance gap.
6. What is SERVQUAL?
7. Name the five dimensions of the SERVQUAL model.
8. Why is the SERVQUAL model important for service organisations?

Answers

1. A quality gap is the difference between customer expectations and the actual service experienced or perceived by the customer.
2. A performance gap is the difference between the service promised by an organisation and the service actually delivered.
3. Understanding customer expectations and establishing clear service standards are two techniques for reducing service gaps.
4. When actual service is lower than customer expectations, it results in customer dissatisfaction.
5. Over-promising and poor employee training are two causes of a performance gap.
6. SERVQUAL is a multidimensional service quality measurement model that compares customers' expectations with their perceptions of the actual service received.
7. The five dimensions of the SERVQUAL model are Tangibles, Reliability, Responsiveness, Assurance, and Empathy.
8. The SERVQUAL model is important because it helps organisations measure customers' perceptions of service quality, identify areas requiring improvement, and enhance overall service performance and customer satisfaction.

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Self Assessment Questions

1. Explain the concept of the quality gap and discuss how it affects customer satisfaction.
2. Explain the concept of the performance gap with suitable examples from service organisations.
3. Discuss the major causes of performance gaps in service delivery.
4. Explain the techniques that service organisations can adopt to bridge or reduce service gaps.
5. Distinguish between the quality gap and the performance gap with suitable examples.
6. What is SERVQUAL? Explain how it is used to measure service quality.
7. Discuss the five dimensions of SERVQUAL. How does each dimension contribute to customers' perceptions of service quality?
8. Compare the GAP Model and the SERVQUAL model. How do these models complement each other in improving service quality?

Assignments

1. Analyse the quality gap and performance gap in a service organisation of your choice. Identify the possible causes of these gaps and suggest suitable measures for reducing them.
2. Select a bank, hospital, hotel, airline, or other service organisation and critically evaluate whether its service promises are consistent with its actual service delivery. Analyse the possible impact of any performance gap on customer satisfaction, trust, and loyalty.
3. SERVQUAL is one of the most widely used models for measuring service quality. Analyse how the five SERVQUAL dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy collectively influence customers' perceptions of service quality, using suitable examples.

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BLOCK - 05



Marketing of Service in Specialised Sectors

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Unit - 1

Marketing of Financial, Health, and Hospitality Services

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the meaning, characteristics, and importance of marketing in financial, healthcare, and hospitality services
- ◊ describe the application of the 7Ps of services marketing in financial, healthcare, hotel, travel, and tourism services
- ◊ analyse the role of technology, relationship marketing, customer experience, and perceived risk in specialised service sectors
- ◊ compare the marketing approaches adopted by financial, healthcare, and hospitality organisations and identify their managerial implications

Prerequisite

Imagine paying for something that you cannot fully examine before buying it. When purchasing a mobile phone or a piece of furniture, customers can usually see and compare the product before making a decision. Services are different. A customer may have to make a decision about a financial product, medical treatment, hotel stay or holiday experience without being able to completely judge the service beforehand.

This makes trust and perceived risk important in service decisions. A person investing money wants to feel that the financial institution is secure and reliable. A patient choosing a healthcare provider looks for professional competence, safety and confidence. A traveller selecting a hotel or holiday package may depend on photographs, ratings, reviews and recommendations to reduce uncertainty. The nature of the risk also differs across these sectors - financial services involve monetary risk, healthcare involves health-related risk, while hospitality involves financial and experiential risk.

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Service organisations therefore need to communicate value in ways that reduce customer uncertainty and build confidence. Technology, personalised communication, customer relationship management, reputation and service quality can all contribute to this process.

Understanding how trust, risk, customer value and service experience influence customer decisions provides a useful foundation for examining the marketing practices adopted by financial, healthcare and hospitality organisations.

Keywords

Financial Services, Healthcare Marketing, Hospitality Marketing, Service Marketing Mix, Relationship Marketing

Discussion

5.1.1 Marketing of Financial Services

Rahul has received his first salary and wants to open a savings account. Several banks operate near his home, and almost all of them provide similar basic services: savings accounts, debit cards, mobile banking, fund transfers, and loans. Rahul does not choose a bank merely by comparing interest rates. He checks whether the mobile application is easy to use, whether the branch staff are helpful, whether ATMs are easily available, whether transactions are secure, and whether problems can be resolved quickly. After comparing the alternatives, he chooses a bank that allows him to open an account digitally, provides a user-friendly mobile application, and offers prompt customer support. What influenced his decision was, therefore, not simply the financial product but the total service experience surrounding it.

This illustration shows the essence of financial services marketing. Financial institutions market not only deposits, loans, insurance, or investment products; they also market confidence, convenience, security, and long-term relationships.

5.1.1.1 What is a Financial Service?

Financial services encompass the management, transfer, investment, borrowing, protection, and accumulation of money. These services are provided by various institutions, including commercial banks, insurance companies, mutual funds, investment firms, credit-card companies, non-banking financial companies, and FinTech businesses.

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Financial services marketing can be defined as the process of identifying the financial needs of individuals and organisations, then designing, communicating, and delivering suitable financial solutions. This process aims to create customer satisfaction and foster profitable, long-term relationships.

According to Lovelock and Wirtz, services necessitate distinct marketing approaches because customers frequently participate in service production, and their experience of receiving the service influences their quality assessment. This observation is particularly pertinent to banking and insurance, where customers continually interact with employees, websites, mobile applications, and automated systems.

Example

A home loan is more than just a sum of money provided by a bank. From the customer's perspective, the complete service includes the interest rate and repayment options, the advice offered by bank employees, the ease of completing the application, the speed of loan approval, the transparency of charges, digital access to loan information, and after-sales support. Consequently, two banks offering seemingly similar home loans can deliver entirely different customer experiences.

5.1.1.2 Characteristics of Financial Services

Financial services exhibit the general characteristics of services but also possess some distinctive features.

1. Intangibility

A bank account or an insurance policy cannot be physically examined before purchase. Customers must rely on the institution's promise. For instance, when purchasing life insurance, a customer does not receive an immediately consumable physical product; instead, they receive a contractual promise of financial protection under specified circumstances. As a result, brand reputation, physical evidence, employee professionalism, and communication become crucial marketing tools.

2. Inseparability

Many financial services involve direct interaction between the customer and the provider. When a customer consults a financial adviser for investment planning, the quality of the service depends partly on the adviser's expertise and partly on the information supplied by the customer.

3. Variability

The quality of financial services can vary depending on the employee, branch, time, and service channel. A customer might receive excellent assistance at one bank branch but experience less satisfactory service at another branch of the same bank. Therefore, standardisation and employee training are essential.

4. Perishability

Unused service capacity cannot always be stored. For example, if bank employees

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are idle during a period of low customer traffic, that unused service capacity cannot be stored and sold later.

5. High Degree of Trust

Financial decisions involve customers' income, savings, investments, and future security, making trust exceptionally important. Customers generally prefer institutions that appear financially sound, transparent, secure, and dependable.

5.1.1.3 Importance of Marketing in Financial Services

Competition among banks, insurance companies, FinTech businesses, and investment firms has made marketing an essential managerial activity. Financial services marketing helps institutions identify different customer segments and develop appropriate products. For example, a student may require a zero-balance account, a salaried employee might need investment products, a businessperson could require working-capital finance, while a retired person may prioritise security and regular income.

Marketing also helps financial organisations communicate complex products in understandable terms. The benefits, risks, fees, and conditions attached to financial products must be clearly communicated because misleading information can damage both customer trust and organisational reputation. Customer retention is another major objective. As banking and insurance relationships often continue for several years, retaining existing customers can be particularly valuable.

5.1.1.4 Marketing Mix for Financial Services

The traditional marketing mix of product, price, place, and promotion is extended in services marketing to include people, process, and physical evidence, creating the 7Ps framework.

Product

The product represents the financial solution offered to the customer. Examples include savings accounts, current accounts, fixed deposits, personal loans, housing loans, credit cards, insurance policies, mutual funds, and wealth-management services. Financial institutions increasingly bundle services around customer needs rather than selling isolated products. For example, a salary account may include a debit card, mobile banking, automatic bill payment, and preferential loan offers.

Price

Price in financial services may take several forms, including interest rates, premiums, processing fees, service charges, commissions, and penalties. Customers are increasingly sensitive to transparent pricing. Hidden fees can quickly lead to dissatisfaction.

Place

Financial services were traditionally distributed through branches, but distribution has expanded dramatically. Customers can now access services through branches,

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ATMs, mobile applications, websites, call centres, business correspondents, and digital payment interfaces. The increasing importance of digital channels demonstrates that "place" in service marketing does not necessarily mean a physical location.

Promotion

Financial institutions use advertising, sales promotion, direct marketing, digital campaigns, sponsorship, personal selling, and relationship marketing. As many financial products are complex, educational communication is particularly valuable. An advertisement for an investment product, for example, may first explain the financial need before promoting a particular solution.

People

Employees play a central role because they represent the institution during interactions with customers. A knowledgeable relationship manager who clearly explains a financial product can increase customer confidence. Conversely, an employee who provides inaccurate or incomplete information can quickly damage trust.

Process

Process refers to the procedures involved in delivering the service. For a loan, the process includes application, document submission, verification, credit assessment, approval, disbursement, and repayment. Simplifying these processes can become a significant source of competitive advantage.

Physical Evidence

Customers use visible cues to evaluate an intangible service. A professionally maintained bank branch, a secure-looking website, a well-designed mobile application, employee identity cards, and clear documentation all contribute to customer perceptions of credibility.

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5.1.1.5 Digital Marketing of Financial Services

Technology has transformed financial services marketing. Banking is increasingly delivered through mobile applications, websites, and other digital platforms. Digital service marketing allows institutions to offer personalised communication, faster transactions, 24-hour availability, and convenient self-service.

Personalisation is also becoming important. By analysing customer behaviour, financial institutions can identify possible requirements and offer relevant services. A customer who regularly receives their salary through a bank account, for example, may receive personalised loan or investment offers. However, financial institutions must balance personalisation with data protection, transparency, and cybersecurity.

5.1.2. Marketing of Health Services

Consider two hospitals located in the same city. Both employ qualified doctors

Case Study: SBI YONO – Digital Transformation of Financial Service Delivery

State Bank of India's YONO (You Only Need One) provides a valuable example of how technology and service marketing can be integrated.

SBI introduced YONO as an integrated digital platform, combining banking with other financial and lifestyle services. The platform allows customers to perform banking transactions and access areas such as investment, insurance, and shopping through a single digital interface. SBI's FY2023–24 reporting stated that YONO had accumulated more than 7.4 crore registered users and that the bank was developing its next-generation platform with a greater emphasis on omnichannel and personalised experiences.

The success of YONO illustrates several principles of financial service marketing. Convenience becomes an integral part of the product, technology becomes a crucial distribution channel, and the digital interface itself serves as physical evidence of service quality. SBI has also described its delivery approach as multichannel, combining branches, mobile banking, internet banking, ATMs, and other channels so that customers can transact through their preferred touchpoints.

*Learning Point:*Financial service organisations increasingly compete not merely through interest rates or product variety but through the quality, simplicity, and accessibility of the entire customer journey.

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and possess modern medical equipment. At the first hospital, a patient can book an appointment online, receives clear directions on arrival, waits only a short time, is treated respectfully by nurses, and receives follow-up information after discharge. At the second hospital, appointment procedures are confusing, waiting times are long, employees communicate poorly, and patients receive little guidance. Even if the technical medical treatment is similar, patients may perceive the first hospital as providing superior healthcare.

This is because patients evaluate healthcare not only on clinical outcomes but also on accessibility, communication, empathy, waiting time, cleanliness, reliability, and confidence.

5.1.2.1 What is Health Service?

Health services include preventive, diagnostic, curative, rehabilitative, and supportive services provided to individuals and communities. They may be offered by hospitals, clinics, diagnostic centres, pharmacies, telemedicine platforms, rehabilitation facilities, and other healthcare organisations.

Health services marketing involves understanding patients' healthcare needs and designing, communicating, and delivering appropriate services in a manner that improves patient value, satisfaction, and organisational effectiveness.

Healthcare marketing differs from the marketing of many commercial services because healthcare involves human well-being, professional ethics, and significant information asymmetry between provider and patient. A patient generally cannot evaluate the technical quality of surgery in the same way that a customer can examine a garment. Consequently, trust assumes exceptional importance.

5.1.2.2 Characteristics of Health Services

1. High Perceived Risk

Healthcare decisions can directly influence a person's health and life. Patients therefore experience greater emotional, physical, and financial risk than consumers purchasing ordinary services.

2. Information Asymmetry

Healthcare professionals usually possess much greater technical knowledge than patients. A patient may not know which diagnostic test or treatment is appropriate and therefore depends heavily on the professional judgement of doctors.

3. Emotional Involvement

Fear, anxiety, pain and uncertainty frequently accompany the consumption of healthcare services. Employee empathy and communication, therefore, become important elements of perceived service quality.

4. Difficulty in Evaluating Quality

Patients may find it difficult to evaluate technical medical competence. They, therefore, rely on visible and experiential indicators such as cleanliness, staff behaviour, waiting times, professional qualifications and hospital reputation.

Need for Ethical Marketing

Healthcare marketing should provide accurate information and avoid exploiting patients' vulnerability.

Claims relating to treatment outcomes, qualifications, technology or pricing should, therefore, be communicated responsibly.

5.1.2.3 Marketing Mix of Health Services

Product

The healthcare product includes the complete package of care, encompassing consultation, diagnosis, surgery, nursing, laboratory tests, pharmacy, emergency care,

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rehabilitation and follow-up. The broader concept of the product also includes emotional support and patient education.

Price

Healthcare pricing may include consultation charges, room rates, diagnostic fees, treatment costs and package prices. Patients increasingly seek transparency because uncertainty regarding treatment expenses can cause significant anxiety.

Place

Place refers to where and how healthcare services are accessed. Traditional channels include hospitals and clinics, while modern channels encompass teleconsultation, home healthcare and digital health platforms.

Promotion

Hospitals utilise websites, community health campaigns, health education programmes, social media, physician referrals and public relations. Ethical promotion should emphasise useful information rather than creating unnecessary fear.

People

Doctors, nurses, technicians, receptionists and support staff collectively shape the patient experience. Even excellent medical treatment can be perceived negatively if employees communicate poorly.

Process

Healthcare processes include registration, appointment booking, consultation, diagnosis, admission, treatment, billing, discharge and follow-up.

Reducing waiting times and simplifying these processes can significantly improve patient satisfaction.

Physical Evidence

Hospital cleanliness, medical equipment, signage, employee uniforms, waiting areas, patient rooms and even digital interfaces serve as physical evidence.

A clean and well-organised environment reassures patients about professionalism and safety.

5.1.2.4 Relationship Marketing in Healthcare

Health services often require ongoing interaction. A diabetic patient, for instance, may need repeated consultations, diagnostic tests and medication over many years. Relationship marketing, therefore, focuses on continuity of care rather than one-time transactions. Hospitals can strengthen relationships through appointment reminders, follow-up calls, health education, patient portals and personalised communication. However, patient privacy must remain a central consideration.

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5.1.2.5 Digitalisation and Telehealth

Digital technology has expanded healthcare beyond hospital buildings. Online consultations, electronic records, health applications, digital prescriptions and home delivery of medicines have altered both service delivery and marketing. Convenience is particularly important for patients who live far from major hospitals or who require repeated consultations. Digital healthcare also presents a new marketing challenge: organisations must convince patients that digital services are secure, reliable and clinically trustworthy.

5.1.3. Marketing of Hospitality Services

Suppose a family plans a five-day holiday in Goa. Their experience begins long before they reach the destination. They search online for flights, compare hotel reviews, book transport and examine tourist attractions. During the trip, they interact with airline employees, taxi drivers, hotel receptionists, restaurant workers, tour guides and local tourism facilities.

After returning home, they post photographs and reviews on social media. Their holiday experience is, therefore, produced by a network of services rather than a single provider. If even one important part of the service chain fails, such as a cancelled flight, an unclean hotel room or an unreliable tour operator, the overall experience can be affected. This illustrates the interconnected nature of hospitality and tourism marketing.

Case Study: Apollo 24|7 – Integrating Physical and Digital Healthcare

Apollo Hospitals provides a useful Indian example of healthcare service innovation. Apollo developed Apollo 24|7 as an integrated digital health platform connecting customers with services across the healthcare ecosystem. Apollo's corporate reporting describes Apollo 24|7 as an integrated digital health platform combining its healthcare capabilities with digital technology.

From a service marketing perspective, this model expands 'place' beyond physical hospitals. Patients can interact with the healthcare brand digitally, rather than commencing every service encounter at a hospital location.

Apollo's approach demonstrates how an established hospital brand can extend trust from physical healthcare into digital service delivery. The platform also illustrates the importance of combining technology, professional expertise, accessibility and brand credibility.

*Learning Point:*Healthcare service marketing increasingly involves the management of an integrated patient journey across both physical and digital touchpoints.

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5.1.3.1 What is Hospitality Service?

Hospitality services include accommodation, food, travel assistance, recreation and other services associated with welcoming and serving guests. Hospitality marketing involves understanding the needs of travellers and guests, and designing, pricing, communicating and delivering experiences that satisfy those needs. Unlike the purchase of many goods, hospitality consumption often involves a strong emotional component. Customers are buying comfort, convenience, enjoyment, relaxation and memories.

5.1.3.2 Characteristics of Hospitality Services

1. Hospitality services are highly intangible. A tourist cannot fully experience a hotel room or holiday package before purchasing it.
2. They are also perishable. An unsold hotel room tonight cannot be stored and sold tomorrow.
3. Demand often fluctuates according to seasons, holidays, festivals and business cycles.
4. Customer participation is another major feature. Guests actively contribute to their own experiences through their behaviour, expectations and interactions.
5. Finally, online reviews have made reputation particularly significant. Potential customers routinely consider the experiences reported by previous guests before making decisions.

5.1.3.3 Marketing Mix for Hospitality Services

The 7Ps are especially useful in hospitality.

The **product** consists of both the core service and supporting experiences. A hotel provides accommodation, but customers may also receive dining, recreation, Wi-Fi, concierge assistance and other benefits.

Price varies according to season, demand, room category and booking period. Revenue management allows hotels and airlines to adjust prices according to anticipated demand.

Place increasingly includes websites, mobile applications, travel agents and online travel intermediaries.

Promotion relies heavily on visual communication because travellers want to imagine the experience before buying it.

People have exceptional importance because hospitality involves numerous face-to-face encounters.

Process includes reservation, check-in, service delivery, payment and check-out.

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Physical evidence includes hotel architecture, interiors, uniforms, room design, cleanliness, menus and signage.

5.1.4. Marketing of Travel Services

Anjali wants to travel from Kochi to Delhi for a conference. She could book each component individually, but instead, she uses an online travel platform that allows her to compare flights, select a hotel, purchase tickets, and receive updates in one place. What she values is not merely the ticket; she values information, comparison, convenience, coordination, and confidence. This forms the basis of travel-service marketing.

5.1.4.1 What is Travel Service?

Travel services facilitate the movement of customers between locations and may include airline booking, railway reservations, bus travel, travel agencies, tour operators, visa assistance, and online travel platforms. Travel service marketing, therefore, involves identifying traveller requirements and creating convenient, safe, and reliable solutions. Customers may travel for leisure, business, education, healthcare, pilgrimage, or visiting friends and relatives. Each segment has different expectations. A business traveller may prioritise punctuality and connectivity, while a leisure traveller may emphasise price and experience.

5.1.4.2 Role of Technology in Travel Marketing

The travel sector has been profoundly transformed by digital platforms. Customers can now search, compare, book, pay, cancel, and review travel services online. Price transparency has also increased. Travellers can easily compare competing offers, forcing service providers to compete on both price and customer experience.

Digital communication also allows companies to send booking confirmations, travel reminders, gate information, and personalised offers.

5.1.5. Marketing of Hotel Services

Two hotels charge almost the same room rate and provide similar rooms. Yet, one hotel consistently receives higher customer ratings.

Why?

Its employees remember returning guests, check-in is quick, rooms are consistently clean, complaints are resolved immediately, and guests receive personalised recommendations. The difference lies in the service experience rather than the room alone.

5.1.5.1 Hotel as a Service Product

A hotel room represents only the core element of the hotel product. The total hotel experience can include reservation, arrival, reception, room service, housekeeping,

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restaurants, recreation, business facilities, complaint handling, and departure. Because numerous employees and departments contribute to a guest's stay, internal coordination is essential.

5.1.5.2 Relationship Marketing and Hotel Loyalty

Hotels frequently use loyalty programmes to encourage repeat visits. A loyalty programme may provide members with points, special rates, upgrades, or other privileges. Such programmes enable hotels to strengthen customer relationships while also gathering information about customer preferences.

5.1.6. Marketing of Tourism Services

Suppose a European traveller has never visited India. Before selecting a destination, she sees photographs of Kerala's backwaters, Rajasthan's forts, Himalayan landscapes, Indian festivals and heritage sites through promotional campaigns and digital media. These images influence her perception even before she purchases an airline ticket.

A tourism destination is, therefore, marketed much like a brand. However, unlike a conventional product, the 'product' consists of numerous elements—transport, accommodation, attractions, culture, food, safety, infrastructure and local hospitality.

5.1.6.1 Meaning of Tourism Marketing

Tourism marketing involves identifying potential tourists, understanding their motivations and presenting destinations and tourism experiences in ways that encourage visitation and satisfaction. The product may include natural attractions, heritage, culture, adventure, wellness, pilgrimage, wildlife and culinary experiences. Tourism marketing, therefore, frequently involves destination marketing rather than the promotion of a single organisation.

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Real Case: Marriott Bonvoy

Marriott International operates Marriott Bonvoy, its global loyalty programme. Marriott's official programme documentation identifies Marriott Bonvoy as the company's loyalty programme and links membership to participating hotels and related experiences. The programme illustrates relationship marketing because its purpose extends beyond securing one hotel reservation. Customers are encouraged to build a continuing relationship with the brand through repeated stays and rewards.

Marriott also offers differentiated membership benefits and elite tiers, linking greater customer engagement with additional privileges.

Learning Point: Hotel marketing increasingly seeks to create customer lifetime value, not merely individual room sales.

5.1.6.2 Destination Marketing

A destination may be a city, state, region or country promoted as an attractive place to visit. Effective destination marketing creates a clear identity.

For example:

1. Kerala may be positioned around nature, backwaters and wellness.
2. Rajasthan may emphasise forts, palaces, desert experiences and heritage.
3. Goa may be associated with beaches, leisure and entertainment.
4. Such positioning helps travellers distinguish among alternative destinations.

5.1.6.3 Tourism Market Segmentation

Tourists differ substantially in their motives. Useful segments include leisure tourists, business tourists, medical tourists, adventure tourists, religious tourists, eco-tourists and cultural tourists. Marketing messages should, therefore, match the interests of the chosen target market. A campaign targeting adventure tourists may emphasise trekking and rafting, whereas one targeting wellness tourists may highlight Ayurveda, yoga and relaxation.

5.1.6.4 Digital Marketing in Tourism

Tourism is highly suited to digital marketing because destination choice is strongly influenced by visual information. Websites, videos, social media, travel blogs, online reviews and virtual experiences enable potential visitors to imagine destinations before travelling. User-generated content is particularly influential. Photographs and reviews posted by travellers often appear more credible to potential visitors than conventional advertising.

Real Case: Incredible India

The Incredible India initiative demonstrates destination branding at a national level. The Ministry of Tourism continues to use the Incredible India brand in international tourism promotion. For example, the Ministry used the brand while showcasing Indian tourism products at major international tourism events, including ITB Berlin.

The campaign is significant because India is not a single homogeneous tourism product. It contains heritage tourism, wildlife, beaches, mountains, wellness, cuisine, spirituality and numerous other experiences. A common destination brand helps connect these diverse offerings within a recognisable identity. The Ministry also maintains digital initiatives associated with Incredible India, reflecting the increasing importance of digital destination communication.

*Learning Point:*Tourism marketing frequently requires coordination among governments, hotels, airlines, tour operators, local businesses and communities because the tourist evaluates the whole destination experience.

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5.1.7 Comparison of Marketing Across the Three Specialised Sectors

Marketing in the financial, healthcare, and hospitality sectors shares several common features, primarily because all three predominantly provide services rather than tangible products. Services are largely intangible, meaning customers cannot fully examine or test them before purchase. Consequently, customers often base their decisions on an organisation's reputation, previous experience, recommendations, perceived quality, and trust. However, customer expectations and the associated risks differ across these sectors, necessitating the adoption of marketing strategies tailored to the specific nature of the service provided.

1. Financial Services

In financial services, encompassing banking, insurance, investment, lending, and digital payment services, customers are primarily concerned with security, reliability, convenience, financial benefits, and trustworthiness. For instance, an individual choosing a bank might consider its ability to safeguard money, provide convenient mobile banking facilities, charge reasonable fees, and offer favourable interest rates.

Trust is paramount, as customers entrust financial institutions with their money and sensitive personal information. Marketing communications in this sector, therefore, often highlight factors such as financial security, transparency, reputation, technological safety, convenience, and returns. Banks might promote mobile banking, quick loan approvals, secure digital payments, personalised investment advice, or attractive savings schemes.

2. Healthcare Services

Healthcare marketing presents a different focus, as customers are primarily concerned with their health, safety, and well-being. When selecting a hospital, clinic, diagnostic centre, or healthcare professional, patients are likely to evaluate professional competence, quality of treatment, safety, empathy, accessibility, and confidence in medical professionals.

For example, a hospital might promote the qualifications of its doctors, modern diagnostic equipment, specialised treatment facilities, patient safety measures, emergency services, and compassionate care. Unlike many other services, customers may have limited ability to judge the technical quality of healthcare themselves. They, therefore, depend heavily on professional reputation, accreditation, recommendations, and previous patient experiences.

Healthcare marketing must also be sensitive and ethical, given that patients may be physically or emotionally vulnerable. Communication should, therefore, provide accurate information rather than create unrealistic expectations about treatment outcomes.

3. Hospitality and Tourism Services

Marketing in hotels, resorts, restaurants, travel services, and tourism services

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strongly emphasises the customer experience. Customers generally seek comfort, convenience, enjoyment, relaxation, entertainment, personalised attention, and memorable experiences.

For example, a resort might promote its location, accommodation quality, food, recreational facilities, customer service, scenic surroundings, and cultural experiences. Similarly, a travel company might market holiday packages by showcasing destinations, activities, convenience, and memorable experiences.

Because customers cannot fully experience a hotel stay or holiday before purchasing it, photographs, videos, online reviews, ratings, testimonials, social media content, and virtual tours play a crucial role in marketing. Positive customer experiences are particularly valuable, as satisfied tourists often recommend destinations and hospitality organisations to others.

5.1.7.1 Differences in Customer Risk

One of the major differences among these sectors is the type and degree of risk perceived by customers.

In financial services, customers may fear losing money, making an unsuitable investment, experiencing fraud, or choosing an expensive financial product. Financial institutions, therefore, need to communicate security, credibility, transparency, and reliability.

In healthcare services, the perceived risk is usually greater because poor service can directly affect a person's health or even life. Consequently, healthcare organisations must emphasise professional expertise, patient safety, quality standards, ethical practices, and compassionate care.

In hospitality and tourism, the main risk is usually experiential. A customer may worry that a hotel will not meet expectations, a holiday package may be disappointing, or the experience may not justify the amount paid. Hospitality organisations, therefore, use photographs, ratings, customer testimonials, guarantees, service descriptions, and online reviews to reduce uncertainty.

5.1.7.2 Common Marketing Features

Despite these differences, financial, healthcare, and hospitality organisations increasingly share several marketing practices.

First, technology has become an important part of service delivery. Banks provide mobile banking and digital payment facilities; hospitals offer online appointments, digital reports, and teleconsultations; hotels and travel organisations provide online booking, digital check-in, mobile applications, and electronic payment systems.

Second, all three sectors increasingly use personalised communication. Financial

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Sector	Major Customer Risk	Main Marketing Emphasis
Financial Services	Monetary and financial risk	Security, reliability, transparency and financial value
Healthcare Services	Health, personal and medical risk	Professional competence, safety, empathy and trust
Hospitality and Tourism	Financial and experiential risk	Comfort, convenience, enjoyment and memorable experiences

organisations may recommend products based on customer needs, healthcare organisations may provide personalised reminders and patient communication, while hotels may offer customised rooms, meals, travel packages, or loyalty benefits.

Third, Customer Relationship Management (CRM) is important across all three sectors. Organisations maintain customer information and interaction records to improve services and develop long-term relationships. For example, a bank may offer personalised financial products to existing customers, a hospital may send appointment reminders, and a hotel may recognise a returning guest's preferences.

Finally, the three sectors increasingly operate through an integrated physical-digital service system. Customers may initially search for information online but later receive the actual service through a physical branch, hospital, hotel, or tourism destination. Therefore, organisations must ensure that the customer's experience remains consistent across websites, mobile applications, telephone services, and face-to-face interactions.

5.1.8 Managerial Implications

Managers in specialised service sectors should recognise that marketing is not simply the responsibility of an advertising department. Every customer interaction communicates something about the organisation. A bank employee explaining a loan, a nurse assisting a worried patient, and a hotel receptionist welcoming a guest are all performing marketing functions because their behaviour affects the customer's perception of the organisation. For this reason, internal marketing is crucial. Employees must understand service standards, receive adequate training, and possess sufficient authority to respond to customer needs.

Technology should also complement rather than completely replace human interaction. Digital platforms may increase convenience, but customers still expect human assistance when problems are complicated or emotionally sensitive.

Finally, organisations should manage the complete customer journey. Customers do not separate advertising, digital interfaces, employees, and after-sales support into independent experiences. They combine all these encounters into a single overall judgement of the organisation.

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Marketing in specialised service sectors revolves around creating and managing customer experiences. In financial services, trust, security, and convenience are central. In health services, professional competence must be combined with empathy, accessibility, and ethical communication. In hospitality, travel, hotel, and tourism services, customers seek not only functional performance but also enjoyable and memorable experiences.

The cases of SBI YONO, Apollo 24|7, Marriott Bonvoy, and Incredible India demonstrate that modern service marketing increasingly combines technology, branding, customer relationships, and multiple service channels. SBI's digital platform illustrates how financial organisations can extend service accessibility; Apollo demonstrates the integration between healthcare expertise and digital access; Marriott shows the importance of loyalty and relationship marketing; and Incredible India illustrates the use of destination branding in tourism.

Recap

- **Specialised Service Marketing:** Financial, healthcare, and hospitality organisations market intangible services where trust, interaction, service performance, and customer experience are particularly important.
- **Financial Services:** Financial services include banking, insurance, investment, lending, and related activities concerned with managing, transferring, protecting, and accumulating money.
- **Characteristics of Financial Services:** Financial services are characterised by intangibility, inseparability, variability, perishability, and a particularly high requirement for customer trust.
- **Financial Service Marketing Mix:** Banks and other financial institutions use the 7Ps by managing financial products, pricing, distribution channels, communication, employees, procedures, and tangible service cues.
- **Digital Financial Services:** Mobile banking, websites, digital payments, and personalised communication have made convenience and technology important elements of financial service delivery.
- **Healthcare Services:** Healthcare includes preventive, diagnostic, curative, rehabilitative, and supportive services provided through hospitals, clinics, and other healthcare organisations.
- **Characteristics of Healthcare:** Healthcare involves high perceived risk, information asymmetry, emotional involvement, difficulty in evaluating technical quality, and the need for ethical marketing.

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- ◊ **Healthcare Marketing Mix:** Healthcare organisations apply the 7Ps through appropriate treatment services, transparent pricing, convenient access, ethical promotion, competent employees, efficient processes, and reassuring physical evidence.
- ◊ **Relationship Marketing in Healthcare:** Continuous communication, follow-up services, and patient support help healthcare organisations establish long-term relationships with patients.
- ◊ **Digital Healthcare:** Teleconsultation, digital records, health applications, and online services have extended healthcare delivery beyond traditional hospital premises.
- ◊ **Hospitality Services:** Hospitality services include accommodation, food, recreation, travel assistance, and other services intended to provide comfort and positive guest experiences.
- ◊ **Characteristics of Hospitality Services:** Hospitality services are intangible and perishable, experience fluctuating demand, and depend heavily on customer participation and online reputation.
- ◊ **Hospitality Marketing Mix:** The 7Ps of hospitality marketing combine the core service with supporting experiences, flexible pricing, convenient booking channels, visual promotion, employee interaction, service processes, and physical surroundings.
- ◊ **Travel Services:** Travel services facilitate customer movement through services such as airline bookings, railway reservations, travel agencies, tour operators, and online travel platforms.
- ◊ **Technology in Travel Marketing:** Digital platforms allow travellers to search, compare, book, pay, cancel, and review travel services conveniently.
- ◊ **Hotel Marketing:** Hotel marketing focuses on the total guest experience, including reservations, reception, accommodation, housekeeping, food services, recreation, complaint management, and departure.
- ◊ **Hotel Relationship Marketing:** Loyalty programmes encourage repeat visits and help hotels develop long-term customer relationships by providing rewards and personalised benefits.
- ◊ **Tourism Marketing:** Tourism marketing identifies potential tourists and promotes destinations and experiences that align with their motivations and expectations.
- ◊ **Destination Marketing:** Cities, regions, states, and countries can be positioned as distinctive tourism brands by highlighting particular attractions and experiences.

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- ◊ **Tourism Market Segmentation:** Tourism markets may be divided into segments such as leisure, business, medical, adventure, religious, eco-tourism, and cultural tourism, based on traveller motivations.
- ◊ **Digital Tourism Marketing:** Websites, videos, social media, online reviews, and traveller-generated content help potential tourists visualise and evaluate destinations before travelling.
- ◊ **Customer Risk:** Financial services primarily involve monetary risk, healthcare involves personal and medical risk, while hospitality and tourism mainly entail financial and experiential risk.
- ◊ **Common Marketing Practices:** Financial, healthcare, and hospitality organisations increasingly rely on technology, personalised communication, CRM, and integrated physical-digital service delivery.
- ◊ **Managerial Implications:** Successful service marketing requires trained employees, effective internal marketing, appropriate use of technology, and careful management of the complete customer journey.

Objective Questions

1. What characteristic makes a financial service impossible to physically examine before purchase?
2. Which marketing framework consists of Product, Price, Place, Promotion, People, Process, and Physical Evidence?
3. What is the primary requirement in financial service relationships, given that customers entrust institutions with their money?
4. Which term describes differences in service quality across employees, locations, or occasions?
5. What type of risk is particularly high in healthcare services?
6. What term describes the knowledge gap between healthcare professionals and patients?
7. Which form of healthcare enables consultation using digital communication technologies?
8. Which marketing approach focuses on maintaining ongoing relationships with customers?
9. What characteristic means that an unsold hotel room cannot be stored for future sale?

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10. What type of marketing promotes a city, region, state, or country as an attractive place to visit?
11. Which programme is discussed in the unit as Marriott International's customer loyalty programme?
12. Which Indian tourism initiative is used in the unit as an example of national destination branding?

Answers

1. Intangibility
2. 7Ps Framework
3. Customer Trust
4. Service Variability
5. Perceived Risk
6. Information Asymmetry
7. Telehealth Services
8. Relationship Marketing
9. Service Perishability
10. Destination Marketing
11. Marriott Bonvoy
12. Incredible India

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Self Assessment Questions

1. Explain the meaning and major characteristics of financial services, and discuss the importance of marketing in financial institutions.
2. Discuss the 7Ps marketing mix of financial services with suitable examples from banking, insurance, and other financial institutions.

3. Explain the distinctive characteristics of healthcare services and discuss how the 7Ps marketing mix can be applied by healthcare organisations.

4. Examine the characteristics and marketing mix of hospitality services, and explain the importance of customer experience in hotel and travel marketing.

5. Compare the marketing of financial, healthcare, and hospitality services with reference to customer expectations, perceived risk, technology, relationship marketing, and service delivery.

Assignments

1. Select two organisations operating in your locality or online. Study their websites, promotional communication, customer-service facilities, and digital services. Prepare a comparative report explaining how each organisation applies the 7Ps of services marketing.

2. Choose one specialised service, such as opening a bank account, visiting a hospital, booking a hotel, or purchasing a travel package. Prepare a document outlining the major stages, from information search to post-service interaction. Identify potential customer difficulties at each stage and propose improvements.

3. Visit the official website or mobile platform of a bank, healthcare provider, hotel, or travel company. Examine its digital marketing and service-delivery features, including information availability, ease of navigation, personalisation, online booking or transactions, customer support, and physical evidence. Prepare a short analytical report.

4. Select a tourism destination in India and develop a simple destination marketing plan. Identify its target tourist segments, unique attractions, positioning, promotional channels, and suitable digital marketing activities. Explain how the destination can create a memorable visitor experience.

5. Visit or closely observe a financial, healthcare, hotel, or travel service organisation. Evaluate its service under the headings of People, Process, and Physical Evidence. Record examples of good practices and service problems, and provide at least five practical recommendations for improving the customer experience.

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Unit - 2

Marketing of Professional, Public Utility, and Educational Services

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the meaning and major characteristics of professional, public utility, and educational services
- ◊ describe the application of the 7 Ps of services marketing in professional, utility, and educational organisations
- ◊ analyse the importance of trust, relationship marketing, service quality, digitalisation, and customer participation in specialised services
- ◊ compare professional, public utility, and educational services, identifying the major managerial implications associated with their marketing

Prerequisite

Consider three everyday situations. A business owner may seek the services of a chartered accountant to manage taxation and financial compliance. A household depends on a public utility provider for essential services such as electricity or water. A student choosing an educational institution may compare courses, teaching quality, facilities, fees and future opportunities. Although all three involve services, the nature of the relationship between the customer and the service provider is quite different.

Professional services generally involve specialised knowledge and expertise, making trust, confidentiality and professional competence important to customers. Public utility services are closely connected with reliability, accessibility, continuity and effective complaint handling. Educational services involve considerable customer participation and have a long-term impact, making factors such as quality of teaching, learning facilities, reputation and career value significant.

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Because customers evaluate these services differently, organisations cannot rely on exactly the same marketing approach. They need to understand the nature of their service, identify customer expectations, design appropriate service processes and communicate their value effectively. The use of technology, relationship building, service quality and the different elements of the 7Ps of service marketing can further influence how customers perceive and evaluate these services.

Recognising these differences provides a useful foundation for understanding how marketing principles are adapted to professional, public utility and educational services.

Keywords

Professional Services, Public Utilities, Educational Services, Relationship Marketing, Service Marketing Mix

Discussion

5.2.1. Marketing of Professional Services

Meera, a small business owner, needs assistance with taxation and financial compliance. She identifies several chartered accountants in her city. All are professionally qualified, but she does not select one based solely on fees. She seeks someone who communicates clearly, understands her business, responds promptly, maintains confidentiality, and explains complex rules in simple language. She also asks other business owners for recommendations and verifies the professional's reputation. What Meera is truly evaluating is not just technical knowledge; she is assessing trust, competence, responsiveness, and relationship quality. This illustrates the nature of professional service marketing.

◊ **What is a Professional Service?**

Professional services are specialised services provided by individuals or firms possessing recognised knowledge, qualifications, expertise, or technical competence. Examples include services provided by lawyers, chartered accountants, architects, management consultants, engineers, doctors, auditors, financial advisers, designers, and information technology consultants.

Professional service marketing refers to the process of identifying client needs, communicating professional competence, building credibility, and delivering

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customised solutions that create long-term client value. Unlike ordinary consumer services, professional services frequently involve complex problems and a significant degree of trust between the client and the professional.

5.2.1.2 Characteristics of Professional Services

1. High Knowledge Intensity

Professional services depend heavily on specialised knowledge. For example, a legal client may not possess sufficient knowledge to evaluate the technical quality of a lawyer's advice. The client, therefore, relies on qualifications, reputation, and confidence in the professional.

2. High Degree of Customisation

Professional services are frequently customised. A management consultant, for example, cannot apply an identical solution to every organisation, as each business presents unique problems, resources, and objectives.

3. Strong Trust Requirement

Clients often disclose sensitive information to professionals. A chartered accountant may gain access to financial records, while a lawyer may learn confidential details regarding a legal dispute. Consequently, ethical conduct and confidentiality become vital marketing assets.

4. Difficulty in Evaluating Quality

The quality of professional services can be challenging to judge, even after delivery. A client may not immediately discern the technical superiority of legal advice or consultancy recommendations. Therefore, the client's perception can be significantly influenced by factors such as communication, responsiveness, and professionalism.

5. Relationship Orientation

Professional services typically develop through ongoing relationships rather than isolated transactions. A business may, for instance, retain the same auditor, lawyer, or consultant for many years.

5.2.1.3 Marketing Mix of Professional Services

The extended 7Ps framework is especially relevant here.

Product

The product encompasses the professional expertise and solutions provided to the client.

Examples include:

i. Legal advice

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ii. Tax planning

iii. Architectural design

iv. Business consultancy

v. Audit services

vi. Software consulting

The core product is, therefore, often knowledge rather than a physical item.

Price

Professional service pricing may be based on:

◊ Hourly fees

◊ Fixed professional charges

◊ Retainer fees

◊ Project-based pricing

◊ Success-based arrangements, where legally and ethically permissible

While clients often associate price with expertise, excessive or unclear charges can lead to dissatisfaction.

Place

Professional services may be delivered:

◊ At the professional's office

◊ At the client's location

◊ Online

◊ Through video consultation

◊ Through specialised digital platforms

Technology has led to the increasing prevalence of remote professional service delivery.

Promotion

Professional services generally rely heavily on:

◊ Reputation

◊ Referrals

◊ Networking

◊ Professional websites

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◊ Thought leadership

◊ Seminars and webinars

◊ Publications

◊ Client testimonials, where professional rules permit

Aggressive promotional claims may be unsuitable or restricted in certain professions.

People

People are central to professional services because the professional is often inseparable from the service itself.

Professional competence, communication, and ethical behaviour directly influence service quality.

Process

A typical professional service process may involve:

1. Understanding the client's problem
2. Gathering information
3. Diagnosis
4. Developing alternatives
5. Recommending a solution
6. Implementation
7. Follow-up

Physical Evidence

Professional offices, reports, websites, certificates, professional appearance, and documentation all contribute to influencing customer confidence.

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5.2.1.4 Relationship Marketing in Professional Services

Relationship marketing is particularly important in professional services, as clients often prefer professionals they know and trust. Consider a small company that has utilised the same chartered accountant for eight years. The accountant possesses a deep understanding of the organisation's financial history, industry, and management style. Changing professionals would necessitate establishing a new relationship and transferring a considerable amount of information. This creates what marketers refer to as a relationship bond.

Professional firms can strengthen relationships by:

i. Communicating regularly

ii. Providing timely updates

iii. Maintaining confidentiality

iv. Offering proactive advice

v. Understanding the client's industry

vi. Responding quickly to questions

5.1.1.5 Reputation and Word-of-Mouth

Professional services often rely heavily on recommendations. A satisfied client may recommend a lawyer or consultant to colleagues. Such recommendations can be more influential than conventional advertising because they reduce uncertainty.For example, a new entrepreneur searching for an accountant may trust another entrepreneur's recommendation more than an advertisement.Therefore, service quality itself becomes a powerful promotional tool.

5.2.1.6 Digital Transformation of Professional Services

Technology has altered the delivery of professional

services, with examples including:

◊ Online legal consultation

◊ Virtual accounting

◊ Cloud-based auditing

◊ Remote consultancy

◊ Online architectural collaboration

◊ Digital financial advisory services

Digitalisation can improve convenience and reduce geographical limitations.

However, professional firms must maintain:

◊ Data security

◊ Confidentiality

◊ Accuracy

◊ Personal attention

◊ Ethical standards

5.2.2 Marketing of Public Utility Services

When a city experiences a power failure lasting several hours, customers do not

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Case Illustration: Deloitte and Integrated Professional Services

Deloitte is a global professional services organisation operating across areas such as audit and assurance, consulting, financial advisory, risk advisory and taxation. Its business model demonstrates how professional service firms increasingly combine deep specialised knowledge with industry expertise and technology. The important marketing lesson is that large professional firms do not sell only technical expertise. They also market reputation, reliability, sector knowledge, problem-solving capability and long-term client relationships.

*Learning Point:*In professional service marketing, the strongest competitive advantage is often not the service itself but the confidence that clients place in the provider.

merely expect electricity to be restored. They expect the utility provider to:

i. Inform them about the reason for the interruption

ii. Provide an estimated restoration time

iii. Respond to complaints

iv. Maintain safety

v. Offer reliable future service

This situation shows that even when customers have limited choice of providers, service quality and communication remain important. Public utilities therefore need marketing not simply to increase sales but to improve service acceptance, public trust, satisfaction and responsible usage.

5.2.2.1 Meaning of Public Utility Services

Public utility services are essential services required for the functioning of households, businesses and society. Examples include:

i. Electricity

ii. Water supply

iii. Gas

iv. Public transport

v. Postal services

vi. Telecommunications

vii. Waste management

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Many public utilities are provided by government agencies, public-sector organisations or regulated private companies. Marketing of public utility services refers to the planning and communication activities through which utility organisations understand public needs, improve service access, communicate effectively and encourage responsible use.

5.2.2.2 Characteristics of Public Utility Services

1. Essential Nature

Public utilities provide services that are necessary for daily life. Electricity, water and public transport cannot easily be treated as optional luxury services.

2. Large Customer Base

Utility providers often serve very large populations, which makes service standardisation and communication challenging.

3. Limited Customer Choice

In some markets, customers may have only one electricity or water supplier. Even when competition is limited, customers still judge service quality.

4. High Capital Requirement

Utilities often require significant infrastructure. For example, electricity distribution requires:

◊ Power lines

◊ Transformers

◊ Substations

◊ Maintenance networks

5. Public Accountability

Utility organisations are expected to act responsibly because their services affect large sections of society.

6. Continuous Service Requirement

Customers expect public utilities to function continuously and reliably. Interruptions can cause significant inconvenience.

5.2.2.3 Marketing Objectives of Public Utility Services

Marketing in public utilities differs from conventional commercial marketing.

The major objectives may include:

i. Improving public awareness

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ii. Promoting responsible consumption

iii. Increasing service accessibility

iv. Improving customer satisfaction

v. Building trust

vi. Encouraging digital service adoption

vii. Reducing complaints

viii. Supporting social welfare objectives

For example, a water authority may conduct campaigns encouraging households to conserve water rather than consume more. This demonstrates that public utility marketing may sometimes aim at demand management rather than demand expansion.

5.2.2.4 Marketing Mix of Public Utility Services

Product

The product is the essential utility supplied to customers. Examples include electricity connection, drinking water, public transport, postal delivery, and broadband connectivity.

Price

Utility prices are frequently regulated. Pricing may include usage-based charges, fixed service charges, subsidised tariffs, and peak and off-peak rates.

Place

Public utilities require extensive distribution networks. Electricity reaches customers through power grids, water through pipelines, and public transport through routes and stations.

Promotion

Promotion generally focuses on awareness, safety, conservation, digital payment, service updates, and complaint procedures.

People

Employees such as customer service personnel, technicians, inspectors, and field workers shape customer experiences.

Process

Key processes include new connections, metering, billing, payment, complaint handling, and service restoration.

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Physical Evidence

Bills, meters, offices, service vehicles, websites, apps, and infrastructure provide visible evidence of service capability.

5.2.2.5 Customer Service in Public Utilities

Public utilities increasingly recognise customers as service users rather than passive recipients. A modern electricity consumer expects:

i. Online bill payment

ii. Consumption history

iii. Complaint tracking

iv. Outage information

v. Quick restoration

Technology allows utility organisations to provide these services more efficiently.

5.2.2.6 Social Marketing in Public Utility Services

Public utilities frequently use **social marketing** to influence behaviour for public benefit.

For example:

◊ An electricity provider may encourage customers to switch off unused appliances during peak hours.

◊ A water authority may promote water conservation.

◊ A transport agency may encourage commuters to use public transportation.

In these cases, the marketing objective is social benefit rather than immediate profit.

5.2.3. Marketing of Educational Services

Suppose Ananya, having completed her higher secondary education, wishes to join a BBA programme. She compares several institutions, evaluating them not only on tuition fees but also on curriculum, faculty, placement support, campus facilities, accreditation, internship opportunities, alumni success, student reviews, location and digital learning facilities. She attends open days, speaks with current students and visits institutional websites. Her decision illustrates that education is a complex service, offering both immediate and long-term value.

5.2.3.1 Meaning of Educational Services

Educational services encompass organised teaching, training, assessment and developmental activities provided by institutions such as schools, colleges, universities,

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Case Illustration: Indian Railways and Digital Passenger Services

Indian Railways provides a useful example of a public utility service undergoing continuous service transformation.

Passengers increasingly interact through digital systems for:

- ◊ Ticket booking
- ◊ Train information
- ◊ Seat availability
- ◊ Catering
- ◊ Refunds
- ◊ Passenger support

The shift from predominantly counter-based service towards digital self-service demonstrates how technology can improve convenience and reduce waiting times. For a public utility, customer satisfaction depends not only on the core service of transportation but also on the supporting service environment.

*Learning Point:*Public utility organisations must manage both operational efficiency and customer experience.

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training centres, business schools, coaching institutions and online learning platforms. Marketing educational services involves identifying learner needs and then designing, communicating and delivering learning experiences that generate academic, personal and career value. Education differs from many other services because the learner is not merely a customer but must actively participate in producing the outcome.

5.2.3.2 Characteristics of Educational Services

1. High Customer Participation

Students must actively participate in learning. While a university may provide excellent teachers and facilities, educational outcomes also depend on student attendance, study, assignments, interaction and practice. Thus, students are co-producers of educational outcomes.

2. Long-Term Outcomes

The benefits of education may materialise years later. A management programme, for instance, can influence employment, career growth, leadership ability and entrepreneurial development.

3. Difficulty in Evaluating Quality Before Purchase

Prospective students cannot fully experience an entire degree programme before enrolling. Consequently, they rely on proxies such as rankings, accreditation, faculty profiles, alumni success, placement statistics and campus facilities.

4. High Involvement

Education often demands considerable time, money and effort. Therefore, students and parents tend to make relatively careful decisions.

5. People-Intensive Service

Faculty and support staff directly influence educational quality.

5.2.3.3 Marketing Mix of Educational Services

The marketing mix for educational services is generally explained through the 7Ps of services marketing: Product, Price, Place, Promotion, People, Process and Physical Evidence. Educational institutions, including schools, colleges, universities, training centres and online learning providers, utilise these elements to attract students, deliver quality education and build long-term institutional reputation. As education is an intangible service, students frequently evaluate its quality through the curriculum, faculty, facilities, learning environment, career support and the overall experience provided by the institution.

1. Product

In educational services, the product refers to the complete learning experience offered to students. It extends beyond classroom teaching to include the curriculum, teaching methods, assessment system, certification, career support, student activities and research opportunities. The quality and relevance of these components significantly influence how students perceive an educational institution.

The curriculum is one of the most crucial elements of the educational product. It comprises the subjects, courses, modules and learning outcomes offered by the institution. An effective curriculum should be academically sound, regularly updated and relevant to the needs of students, society and employers. For example, a business school might incorporate courses in digital marketing, data analytics and entrepreneurship to prepare students for current employment opportunities.

Teaching refers to the methods and approaches used by faculty members to facilitate learning. It may include classroom lectures, discussions, case studies, practical exercises, projects, simulations, and technology-supported learning. Effective teaching helps students understand concepts and apply them in real-world situations. The competence, communication ability, and experience of teachers, therefore, contribute significantly to the quality of the educational service.

Assessment is the process through which students' knowledge, skills, and learning progress are evaluated. Educational institutions may use examinations, assignments,

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presentations, projects, practical tests, and continuous assessments. A fair and transparent assessment system gives students confidence that their academic performance is being evaluated properly.

Certification represents the formal recognition of a student's successful completion of a programme. Degrees, diplomas, and certificates are important because they provide evidence of educational achievement and may influence employment or further-study opportunities. The credibility and recognition of the institution awarding the certificate are, therefore, important aspects of the educational product.

Career support is increasingly an important part of educational services. Institutions may provide career counselling, employability training, internship assistance, CV preparation, interview training, and placement opportunities. Students often evaluate higher education institutions not only on academic quality but also on their ability to support future career development.

Student activities include clubs, sports, cultural programmes, competitions, seminars, leadership activities, and community engagement. These activities support the overall development of students by improving communication, teamwork, confidence, and leadership skills. Consequently, they add value to the total educational experience.

Research opportunities are especially important in universities and higher education institutions. Students may be given opportunities to participate in research projects, conferences, publications, laboratories, and academic collaborations. Such opportunities develop analytical and critical-thinking skills and can improve the academic reputation of the institution.

Therefore, the educational product should be viewed as the total educational experience, including academic learning, skill development, personal growth, extracurricular participation, and career preparation.

2. Price

The price of educational services refers to all the financial and non-financial costs that students and their families bear in obtaining an education. Tuition fees are the most visible component, but the total cost of education may also include examination charges, accommodation expenses, learning materials, transportation, and opportunity cost.

Tuition fees are the amount charged by an institution for providing academic instruction and related services. Fee levels may vary according to the programme, the reputation of the institution, the duration of study, the facilities provided, and the level of education. Institutions must establish tuition fees that reflect the value of their programmes while remaining affordable to their target students.

Examination charges may include registration fees, examination fees, certification charges, and fees for supplementary examinations. Although these may be smaller than tuition fees, they contribute to the total financial burden on students.

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Accommodation costs are important for students who live away from home. Hostel fees, rental expenses, food, and other living costs can significantly influence the choice of institution. For example, a student may prefer a college closer to home if the total cost of living near another institution is very high.

Materials include textbooks, stationery, laboratory equipment, software and digital learning resources. Some professional programmes may require expensive, specialised materials. Institutions that provide learning materials as part of the programme may, therefore, create additional value for students.

Another important element is opportunity cost. This refers to the income, employment opportunities or other activities that students forgo while pursuing education. For example, a working professional who enrols in a full-time postgraduate programme may lose income during the period of study.

Scholarships, fee concessions, educational loans and financial assistance can reduce the effective price of education and make programmes accessible to a larger number of students. Institutions often use scholarships not only as financial support but also as a way of attracting academically talented or economically disadvantaged students. Thus, pricing decisions can significantly influence student enrolment.

3. Place

In educational services, 'place' refers to the channels and locations through which learning is delivered and made accessible to students. Traditionally, education was primarily provided through physical campuses. However, technological developments have created several alternative delivery methods.

Physical campuses remain an important mode of educational delivery. Students attend classrooms, laboratories, libraries and other institutional facilities in person. Campus-based education provides opportunities for direct interaction with teachers and classmates and allows students to participate in extracurricular and social activities.

Distance learning enables students to study without regularly attending a campus. Study materials may be provided through printed resources, digital platforms or periodic contact classes. Distance education is particularly useful for working professionals, students living in remote areas and individuals who require flexible learning schedules.

Online platforms have become a crucial educational delivery channel. Institutions can provide live classes, recorded lectures, digital assessments, discussion forums and learning resources through websites and learning-management systems. Online learning allows institutions to reach students across geographical boundaries.

Blended learning combines physical classroom teaching with online learning. For example, students may attend certain classes on campus while completing assignments, viewing lectures or participating in discussions online. This approach combines the personal interaction of traditional education with the flexibility of digital learning.

The choice of 'place' therefore affects accessibility, convenience, the learning experience and the number of students an institution can serve.

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4. Promotion

Promotion refers to the communication activities used by educational institutions to inform prospective students, parents and other stakeholders about their programmes, facilities, achievements and opportunities. Since education is a major personal and financial decision, promotional communication should be informative, accurate and credible.

Websites are one of the most important promotional tools for educational institutions. A well-designed website can provide information about programmes, eligibility requirements, fees, faculty, facilities, admissions, scholarships and career opportunities. Students frequently use institutional websites when comparing educational options.

Education fairs provide institutions with opportunities to interact directly with prospective students and parents. Representatives can explain programmes, admission procedures, scholarships and career prospects. Such events are particularly useful for attracting students from different regions.

Social media platforms allow institutions to communicate with students interactively. Colleges and universities can share campus activities, student achievements, admission announcements, faculty events and success stories through these platforms, helping to foster an active online community.

Brochures offer organised information about programmes, fees, facilities, faculty and admission procedures. They can be distributed during school visits, education fairs, counselling sessions and admission events.

Open days enable prospective students and parents to visit the campus and experience the institution first-hand. They can interact with faculty members, visit classrooms and laboratories, attend presentations and speak with current students. This direct experience helps to reduce uncertainty and build confidence in the institution.

Webinars are increasingly used to reach prospective students online. Institutions can conduct webinars on academic programmes, admissions, scholarships, career opportunities or specific areas of study. They are particularly useful for engaging with students who cannot physically visit the campus.

Alumni networks also play a crucial promotional role. Successful graduates demonstrate the potential value of an institution's education. Alumni can participate in career talks, mentoring, recruitment and promotional activities, thereby strengthening the institution's reputation.

School outreach involves contacting schools and engaging with students before they enter higher education. Institutions can organise career guidance sessions, workshops, competitions, campus visits and counselling programmes. Such outreach helps students become familiar with available educational opportunities.

5. People

The 'people' element is especially important in educational services because

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education involves extensive interaction between students and institutional employees. Faculty members, admissions staff, administrators, career counsellors and placement officers all influence students' perceptions of service quality.

Faculty members are central to the educational experience, as they directly deliver teaching, guidance and academic support. Their knowledge, teaching ability, professional behaviour and willingness to help students strongly influence learning quality and student satisfaction.

Admissions staff are often among the first employees prospective students interact with. They provide information about programmes, eligibility, fees, scholarships and application procedures. Friendly and accurate assistance during the admissions process can create a positive first impression of the institution.

Administrators manage many operational aspects of education, including registration, examinations, student records, fees and academic services. Efficient administration reduces delays and confusion, contributing to a smoother student experience.

Career counsellors help students understand career options, identify suitable career paths and develop employability skills. They can provide advice on further studies, professional qualifications and employment opportunities.

Placement officers connect students with employers and employment opportunities. Their responsibilities may include organising campus recruitment, internships, employer interactions, interview training and job fairs. Strong placement support can significantly enhance the perceived value of an educational programme.

Thus, employees at every level contribute to the institution's image and influence student satisfaction.

6. Process

The 'process' element refers to the procedures and systems through which educational services are delivered. Efficient and transparent processes are important because students interact with the institution repeatedly throughout their period of study.

The admission process encompasses application submission, eligibility verification, selection, counselling, and final confirmation. A streamlined, transparent, and efficient admission system significantly enhances the experience for prospective students.

Registration pertains to the enrolment of students in programmes, subjects, semesters, or examinations. Increasingly, institutions are adopting online registration systems to minimise paperwork and offer greater convenience.

The teaching process involves lesson planning, classroom interaction, practical activities, academic mentoring, and the integration of learning technologies. A meticulously organised teaching process ensures students consistently receive effective learning experiences.

The assessment process comprises examinations, assignments, projects, grading, and feedback. Students expect assessments to be fair, transparent, and conducted in

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accordance with clearly communicated academic regulations.

The certification process entails confirming the successful completion of a programme and the subsequent issuance of degrees, diplomas, certificates, or transcripts. Timely and accurate certification is crucial, as students often require these documents for employment or further education.

Placement support is another vital process within many higher education institutions. This may include career training, internship coordination, recruitment drives, and engagement with employers. A structured placement process facilitates students' successful transition from education to employment.

An institution with well-designed processes can mitigate administrative challenges, elevate service quality, and boost student satisfaction.

7. Physical Evidence

Given the largely intangible nature of education, students frequently evaluate its quality based on the physical evidence associated with the institution. This physical evidence encompasses both tangible facilities and digital elements that reflect the quality and professionalism of the educational service.

The campus represents one of the most visible forms of physical evidence. Clean surroundings, aesthetically pleasing buildings, safety measures, accessibility, and well-maintained facilities can cultivate a positive impression among students and parents.

Classrooms significantly influence the learning environment. Comfortable seating, adequate lighting, ventilation, presentation equipment, and digital teaching facilities can foster effective learning.

Laboratories are particularly critical in science, technology, healthcare, and professional programmes. Well-equipped laboratories demonstrate that students will be afforded opportunities for practical learning and skill development.

Libraries offer access to books, journals, databases, and other academic resources. A comprehensive library can signify an institution's academic strength and support independent learning and research.

Institutional websites also serve as digital physical evidence. A professional, up-to-date, and user-friendly website conveys credibility and provides students with an indication of the institution's organisation and technological capabilities.

Learning Management Systems (LMS) provide access to course materials, assignments, announcements, examinations, and communication tools. A reliable and user-friendly LMS can enhance the overall learning experience, especially in online and blended education.

Finally, certificates, degrees, and academic transcripts constitute tangible evidence of the educational service received. Their design, authenticity, recognition, and credibility contribute to the perceived value of the qualification.

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Conclusion

The 7 Ps marketing mix for educational services demonstrates that successful educational marketing involves much more than simply advertising courses. Institutions must offer a relevant educational product, establish appropriate pricing, provide convenient modes of delivery, communicate effectively with prospective students, employ competent people, maintain efficient processes, and provide strong physical and digital evidence of quality. When these elements are properly integrated, educational institutions can improve student satisfaction, strengthen their reputation, and develop long-term relationships with students, parents, employers, and society.

5.2.3.4 Student Satisfaction and Service Quality

Educational institutions increasingly monitor student satisfaction. Students evaluate aspects such as faculty responsiveness, teaching quality, availability of resources, administrative efficiency, technology, campus support, and career services. However, student satisfaction should not be confused with academic standards. An institution should not reduce academic rigour simply to make students more comfortable. The challenge lies in providing a supportive experience while maintaining learning quality.

5.2.3.5 Relationship Marketing in Education

The relationship between an educational institution and its students does not end at graduation. Alumni may recommend the institution, recruit graduates, donate funds, mentor students, and support networking. Therefore, educational institutions increasingly view alumni relations as part of long-term relationship marketing.

5.2.3.6 Branding of Educational Institutions

Strong institutional brands reduce uncertainty. A well-known university may attract students because its name signals perceived quality. Educational branding may be based on: academic excellence, placement record, research, international exposure, innovation, heritage, and entrepreneurship. The brand promise must, however, be supported by the actual student experience.

5.2.3.7 Digital Marketing in Education

Students increasingly begin their search for an institution online. Educational organisations use search engines, social media, video content, virtual campus tours, online counselling, and webinars. Digital marketing enables institutions to reach students across geographical boundaries. However, institutions should avoid exaggerated claims about placements, rankings, or outcomes. Credibility remains essential.

5.2.4 Comparison of the Three Specialised Service Sectors

Professional services, public utilities, and educational services differ in purpose but share several service marketing characteristics. Professional services depend heavily on

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expertise and trust. Public utility services depend strongly on accessibility, continuity, and reliability. Educational services depend on quality, reputation, learner participation, and long-term value.

Professional service customers normally have some freedom to choose their provider, whereas customers of certain utilities may have limited choice. Students often make high-involvement decisions because educational services involve significant time and financial commitment.

Another major difference concerns customer participation. In professional services, clients provide information and cooperate with professionals. In utilities, customer participation is often relatively limited but may increase through self-service technologies. In education, participation is exceptionally high because students contribute directly to their own learning outcomes.

Case Illustration: Coursera and Online Educational Service Marketing

Coursera illustrates the development of digital educational services. The platform provides online courses and learning programmes in collaboration with universities and organisations. From a marketing perspective, digital education dramatically expands "place". Learners can participate in courses without physically travelling to a campus. The platform also reduces uncertainty by providing information about course content, duration, instructor, learning outcomes, and certification. Digital education changes the competitive environment because learners can compare programmes internationally.

Learning Point: Educational organisations now compete not only locally but also within a global digital education marketplace.

5.2.5 Managerial Implications

Managers in all three sectors must recognise that service quality is created through multiple customer interactions. A consultant's advice, an electricity provider's complaint response, or a university's admission process may significantly influence customer perceptions. Therefore, organisations should focus on:

i. Employee competence

ii. Transparent communication

iii. Efficient processes

iv. Digital convenience

v. Relationship building

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vi. Ethical marketing

vii. Customer feedback

Technology should simplify service delivery without eliminating necessary human interaction. Professional clients may still need personal advice, utility customers may require human assistance during emergencies, and students may require counselling and academic support.

Conclusion

The marketing of professional, public utility, and educational services demonstrates that service marketing extends far beyond advertising and promotion. Professional services require organisations to market competence, confidentiality, trust, and relationships. Public utilities must combine efficient infrastructure with accessibility, communication, and public responsibility. Educational institutions must create credible learning experiences built around faculty quality, student participation, reputation, and long-term outcomes.

Recap

- **Professional Services:** These are specialised services based on recognised knowledge, qualifications, expertise, and technical competence.
- **Knowledge Intensity:** Professional services depend heavily on specialised knowledge that customers may not be able to evaluate easily.
- **Customisation:** Professional services are often tailored to the specific needs, problems, and circumstances of individual clients.
- **Trust and Confidentiality:** Ethical conduct, confidentiality, and credibility are essential because clients frequently share sensitive information with professionals.
- **Professional Service Marketing Mix:** The 7 Ps help professional firms manage expertise, pricing, service delivery channels, promotion, employees, service processes, and physical evidence.
- **Relationship Marketing:** Long-term professional relationships are strengthened through regular communication, timely updates, confidentiality, and proactive advice.
- **Word-of-Mouth:** Recommendations from satisfied clients are especially influential in professional services because they reduce uncertainty.

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- ◊ **Digital Professional Services:** Online consultations, virtual accounting, cloud-based auditing, and remote consultancy have increased service accessibility.
- ◊ **Public Utility Services:** These provide essential services such as electricity, water, public transport, postal services, telecommunications, and waste management.
- ◊ **Essential Nature:** Utility services are necessary for normal social and economic life and therefore require reliable and continuous delivery.
- ◊ **Public Accountability:** Utility providers are expected to act responsibly because their services affect large sections of society.
- ◊ **Utility Marketing Objectives:** Public utility marketing aims to improve awareness, accessibility, responsible consumption, customer satisfaction, trust, and digital adoption.
- ◊ **Utility Marketing Mix:** The 7 Ps in public utilities include the core utility service, regulated pricing, distribution infrastructure, public communication, employees, processes, and visible service evidence.
- ◊ **Customer Service in Utilities:** Modern utility customers expect facilities such as online payments, complaint tracking, usage information, and timely service restoration.
- ◊ **Social Marketing:** Public utilities may use marketing to encourage socially beneficial behaviour such as water conservation, energy saving, and public transport usage.
- ◊ **Educational Services:** These include organised teaching, training, assessment, and developmental activities offered by schools, colleges, universities, and learning platforms.
- ◊ **Customer Participation in Education:** Students are co-producers of educational outcomes, as learning depends on attendance, study, interaction, assignments, and practice.
- ◊ **Long-Term Educational Value:** The benefits of education, such as employment, career growth, leadership ability, and entrepreneurial development, may emerge over several years.
- ◊ **Educational Marketing Mix:** The 7 Ps in education include curriculum and learning experience, total cost, mode of delivery, promotion, faculty and staff, educational processes, and physical evidence.
- ◊ **Educational Product:** The educational product encompasses curriculum, teaching, assessment, certification, career support, student activities, and research opportunities.

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- ◊ **Educational Price:** The total price of education includes tuition, examination charges, accommodation, learning materials, and opportunity cost.
- ◊ **Educational Place:** Education may be delivered through physical campuses, distance learning, online platforms, and blended learning.
- ◊ **Educational Promotion:** Institutions utilise websites, education fairs, social media, open days, webinars, alumni networks, and school outreach.
- ◊ **People in Education:** Faculty, admissions staff, administrators, counsellors, and placement officers influence service quality and student satisfaction.
- ◊ **Educational Process:** Admission, registration, teaching, assessment, certification, and placement support form important stages in educational service delivery.
- ◊ **Physical Evidence in Education:** Campuses, classrooms, laboratories, libraries, websites, Learning Management System (LMS) platforms, and certificates act as tangible indicators of educational quality.
- ◊ **Student Satisfaction:** Educational institutions must effectively support students without compromising academic standards and learning quality.
- ◊ **Educational Relationship Marketing:** Alumni relations help institutions maintain long-term relationships after students complete their programmes.
- ◊ **Educational Branding:** Institutional brands may be built around academic excellence, placement record, research, innovation, heritage, and international exposure.
- ◊ **Digital Marketing in Education:** Search engines, social media, webinars, virtual campus tours, and online counselling allow institutions to reach learners beyond geographical boundaries.
- ◊ **Sector Comparison:** Professional services emphasise expertise and trust; utilities emphasise accessibility and reliability; while education emphasises quality, participation, reputation, and long-term value.
- ◊ **Managerial Implications:** Managers across all three sectors must focus on employee competence, transparent communication, efficient processes, digital convenience, relationship building, ethical marketing, and customer feedback.

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Objective Questions

1. What type of service is based mainly on specialised knowledge and expertise?
2. Which characteristic of professional services refers to tailoring solutions to individual client needs?
3. What marketing approach focuses on maintaining long-term client relationships?
4. What promotional influence often plays a major role in professional services through recommendations?
5. What type of service includes electricity, water supply, and public transport?
6. What type of marketing encourages behaviour for public benefit rather than immediate profit?
7. Which characteristic of public utilities refers to the expectation of uninterrupted service?
8. Which marketing framework includes Product, Price, Place, Promotion, People, Process, and Physical Evidence?
9. What term describes students' active role in producing their own learning outcomes?
10. Which learning mode combines classroom and online education?
11. What digital system gives students access to course materials, assignments, and communication tools?
12. What type of marketing maintains relationships with graduates after they leave an institution?

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Answers

1. Professional Service
2. Service Customisation
3. Relationship Marketing
4. Word-of-Mouth

5. Public Utility
6. Social Marketing
7. Service Continuity
8. 7 Ps Framework
9. Customer Participation
10. Blended Learning
11. Learning Management System
12. Alumni Marketing

Self Assessment Questions

1. Explain the meaning and characteristics of professional services and discuss the importance of trust and relationship marketing in this sector.
2. Discuss the 7Ps marketing mix for professional services, providing suitable examples.
3. Explain the meaning, characteristics, and marketing objectives of public utility services, and discuss the role of customer service and social marketing.
4. Describe the characteristics of educational services and provide a detailed explanation of the 7Ps marketing mix for educational services.
5. Compare professional, public utility, and educational services with reference to customer participation, service quality, trust, reliability, digitalisation, and managerial requirements.

Assignments

1. Select a professional service provider (e.g., a chartered accountant, lawyer, architect, consultant, or financial adviser). Study how the provider communicates expertise, builds trust, and maintains client relationships. Prepare a short report using the 7Ps framework.

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2. Choose a public utility (e.g., electricity, water supply, public transport, postal service, or telecommunications). Observe its customer service system and evaluate areas such as billing, complaint handling, digital access, service updates, and responsiveness. Suggest five improvements.

3. Design a simple social marketing campaign for a public utility organisation. The campaign may focus on water conservation, energy saving, waste reduction, or increased use of public transport. Identify the target audience, message, communication channels, and expected behavioural change.

4. Select a college, university, business school, or online learning provider. Examine its website and promotional materials, and assess how it applies the 7Ps of educational service marketing. Present your observations in a structured report.

5. Prepare a short questionnaire and collect responses from at least ten students regarding the factors they consider when selecting a college or university. Include factors such as curriculum, faculty, fees, location, placement record, accreditation, facilities, online learning support, and institutional reputation. Summarise the findings and identify the three most influential factors.

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SREENARAYANAGURU OPEN UNIVERSITY

QP CODE: …… Reg. No : .....

Name : …….....

Model Question Paper- set-I

Fifth Semester Bachelor of Business Administration (Honours)

Examination

Major Discipline Specific Elective

SGB24BB501ME - SERVICE MARKETING

(CBCS - UG)

2024-25 - Admission Onwards

Time: 3 Hours Max Marks: 70

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Section A

(Answer any 8, each carrying 1 mark) **(8×1= 8)**

1. What is a service?
2. What is meant by intangibility of services?
3. What do you mean by Service Design?
4. What is Internal Marketing?
5. What is value-based pricing in services?
6. What is Physical Evidence in services marketing?
7. What is meant by the Zone of Tolerance?
8. What is Service Recovery?
9. What is the Customer Gap in the GAP Model of Service Quality?
10. What is Relationship Marketing?

Section B

(Answer any 6, each carries 2 marks) **(6×2=12)**

11. Explain any four characteristics of services.

12. Explain the importance of Service Design in service organisations.
13. Distinguish between Internal Marketing and External Marketing.
14. Explain the role of People in the Extended Marketing Mix.
15. Briefly explain the role of customers as participants in service delivery.
16. Distinguish between customer satisfaction and customer delight.
17. Explain the five dimensions of the SERVQUAL model.
18. Explain the importance of marketing in financial services.

Section C

(Answer any 6 each carries 5 marks) **(6 x 5 = 30)**

19. Explain the various bases for the classification of services with suitable examples.
20. Describe the steps involved in designing a service.
21. Explain the traditional marketing mix in services with reference to Product, Price, Place and Promotion.
22. Discuss the three additional elements of the Extended Marketing Mix: People, Process and Physical Evidence.
23. Explain the process of customer behaviour in services from need recognition to post-consumption evaluation.
24. Describe the major causes of conflict in service organisations and explain the stages involved in effective conflict handling and service recovery.
25. Explain the GAP Model of Service Quality and describe the five service quality gaps.
26. Explain the application of the 7Ps of services marketing in hospitality services.

Section D

(Answer any 2 each carries 10 marks) **(2 x 10 = 20)**

27. Explain the classification of services. Discuss the major factors responsible for the growth of the service sector and its contribution to the Indian economy.
28. Explain the Service Marketing Triangle and the Extended Marketing Mix.
29. Explain the GAP Model and SERVQUAL as approaches to service quality. Discuss the SERVQUAL dimensions and suitable measures for improving service quality.

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SREENARAYANAGURU OPEN UNIVERSITY

QP CODE: …… Reg. No : .....

Name : …….....

Model Question Paper- set-II

Fifth Semester Bachelor of Business Administration (Honours)

Examination

Major Discipline Specific Elective

SGB24BB501ME - SERVICE MARKETING

(CBCS - UG)

2024-25 - Admission Onwards

Time: 3 Hours Max Marks: 70

Section A

(Answer any 8, each carrying 1 mark) **(8×1= 8)**

1. What is Service Marketing?
2. What is Perishability?
3. What is Dynamic Pricing in services?
4. What is Service Delivery?
5. What is Customer Switching?
6. What are Telehealth Services?
7. What are Service Costs?
8. What is Social Marketing in public utility services?
9. What is Service Variability?
10. What is Destination Marketing?

Section B

(Answer any 6, each carries 2 marks) **(6×2=12)**

11. Explain any four challenges in managing service processes.

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12. Distinguish between pricing strategy and pricing tactics in services.
13. Explain any four factors influencing customer expectations.
14. Explain the components of service costs experienced by customers.
15. Explain any four methods of service distribution.
16. Explain any two negative customer responses after a service experience.
17. Explain the role of technology in healthcare services.
18. Explain the marketing objectives of public utility services.

Section C

(Answer any 6 each carries 5 marks) **(6 x 5 = 30)**

19. Explain the elements of product decisions in services marketing.
20. Describe the service delivery proces.
21. Explain the major pricing strategies for services.
22. Explain the major methods of service distribution
23. Explain the factors influencing customer expectations in service marketing.
24. Explain service costs experienced by customers and distinguish monetary and non-monetary costs.
25. Explain the distinctive characteristics of educational services and their long-term outcomes.
26. Explain the characteristics of professional services and the importance of trust in professional service marketing.

Section D

(Answer any 2 each carries 10 marks) **(2 x 10 = 20)**

27. Discuss the marketing of professional services, including their distinctive characteristics and the application of the 7Ps.
28. Discuss the marketing of educational services, explaining their distinctive characteristics and the application of the 7Ps.
29. Discuss public utility services and explain their 7Ps, customer service features and role of social marketing.

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Regional Centres

Kozhikode
Govt. Arts and Science College
Meenchantha, Kozhikode,
Kerala, Pin: 673002
Ph: 04952920228
email: rckdirector@sgou.ac.in

Thalassery
Govt. Brennen College
Dharmadam, Thalassery,
Kannur, Pin: 670106
Ph: 04902990494
email: rctdirector@sgou.ac.in

Tripunithura
Govt. College
Tripunithura, Ernakulam,
Kerala, Pin: 682301
Ph: 04842927436
email: rcedirector@sgou.ac.in

Pattambi
Sree Neelakanta Govt. Sanskrit College
Pattambi, Palakkad,
Kerala, Pin: 679303
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Sreenarayanaguru Open University
Kollam, Kerala Pin- 691601, email: info@sgou.ac.in, www.sgou.ac.in Ph: +91 474 2966841

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