Chapter I

INTRODUCTION

CONCEPT, NATURE, DEVELOPMENT, AND ENVIRONMENT OF SERVICES MARKETING

Concept of Services Marketing

Service marketing is one of the major activities in the contemporary economy. More than half of the consumption expenditures are made for buying services. The demand for services expands with social development, cross-cultural exchanges and growth in per capita incomes of people.

Service is an offer of value to the target customers with or without products. Every offer to the market has some component of services. For instance, the offers to the market range from pure goods to pure services. Even pure goods provide basic services to the buyers. Most of the consumer durables are sold with accompanying services, such as delivery, installations, advice, repairs, maintenance, warranty etc. Hotel, restaurant, cinema and other entertainment and amusement services are marketed on the basis of tangible goods, such as the quality and variety of meals, the layout and decoration of the place and so on. Transportation services have to make heavy investment in tangible goods in order to provide the service. Even pure services, such as beauty and health care services need certain equipment to provide the service.

TABLE 1.1: PRODUCTS AND THEIR SERVICE COMPONENTS

Types of offers	Examples	Service component
Pure goods	Toilet soap, tooth-paste, razor blades, sugar, salt etc.	No explicit service attached but tangible goods provide different services to the buyers.
Goods with accompanying services	Cars, refrigerators, computers, television sets etc.	Supplementary services such as delivery provided with the core goods.
Hybrid services	Restaurant meals, hotels, cinema etc.	Customers consider the tangible part important purchase variable
Major service- minor goods	Airline travel	The major offer is service but the customer is provided with some minor goods.
Pure service	Insurance, banking, consultancy etc.	The offer consists of pure services.

According to Philip Kotler (2006) "a service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything." Service thus is an intangible economic activity that creates or adds value to the offer and provides satisfaction to the recipient of the service.

This definition indicates the following aspects of service marketing:

1. Human activity: Every service is a human activity performed by the service provider directly in contact with the service seeker or indirectly through some machines such as vending machine or computer.
2. Mutual benefit: The service transaction should benefit both parties involved in the transaction. Service provider gets monetary benefit and the service seeker gets value and satisfaction.
3. Intangibility: The end products offered in the service transaction are mostly intangible in nature. The buyer of the service only receives satisfaction from the services.

Nature of Services Marketing
Industrial and economic activities are of three categories: primary, secondary, and tertiary. Primary activities are mainly concerned with exploitation of nature such as agriculture, fishing, mining, and forestry. Secondary activities are concerned mainly with manufacturing goods. The tertiary activities refer to the service and distribution.

The size and dimensions of services marketing is growing all over the world. In most of the industrialized countries more than half of the work force is employed in the service industry. In Nepal, the service industry has grown very fast in the last two decades. Particularly, the growth in the financial services, tourism services, transport services, education services, and communication services has been remarkable.

Marketing of service products to a large extent is similar to marketing of physical goods. Services marketing also involve the designing the marketing mix based on the market research, implementing segmentation strategy, designing strategic marketing plan, implementing strategy and plan, and designing control system. Despite of the similarities services marketing have the following specific characteristics:

1. **Lack of Customer Ownership**
Normally, in marketing of services customers derive the value from services without physically owning any tangible elements. In most of the service deliveries the experience (satisfaction or dissatisfaction) of the customer is the major element rather than the goods used in the delivery process. Restaurants, travel service providers, theme parks, and many such service businesses consider this factor very seriously.

2. **Customer Involvement in the Production Process**
In most of the services, customers are physically present and directly involved in the production and delivery of the services. Customer involvement level varies across the services ranging between full involvement in self-service (ATM, vending machines, launderettes etc.) to partial involvement in doctor's clinic and beautician's parlors.

3. **People Based**
Most of the services with the exception of self-service business service delivery is heavily based on people. Most of the high-contact services thus have to practice internal marketing and interactive marketing to deliver higher level of satisfaction to their customers and clients. Internal marketing calls for high focus on customer orientations;

and interactive marketing require the service providers to be able to talk sensibly and practice effective public relations.

4. Difficult Pre-purchase Customer Evaluations
Service customers face very difficult situation when they make pre-purchase evaluations since they cannot determine the suitability of the offer on the basis of the size, shape, color or style. Often service companies describe the experience properties of their offer but this can be experienced by the customers only in the post-purchase situations.

5. Time and Place Factors
In service marketing the time and place are very important factors both for the service provider and the service seeker. Since services cannot be stored it must be delivered and consumed at the mutually agreed time and place between the parties in the service transaction. Customers should be present at the place of the service providers at the right time through pre-appointment to receive the services of doctors, lawyers, beauticians or other professionals. Similarly, service providers like plumbers, cleaners, and baby-sitters should visit the customer's place at the time determined by the customer.

Development of Services Marketing as a Discipline
Service organizations lagged behind organizations selling goods in adopting the marketing concept. This was due to two major factors.
1. Sellers of professional services, such as doctors, engineers and lawyers perceived themselves as providers of services rather than businesspersons. They believed that their quality of service alone can attract customers.
2. Non-profit organizations initially took the idea of marketing their services as unethical. They perceived marketing as a purely business concept.

To-day the scene has completely changed. All service industries-individual and organizational, profit and non-profit - are aware of the need for adopting the marketing concept. Many service organizations - profit as well as non-profit - have adopted the marketing concept with its prime focus on customer satisfaction.

The development of services marketing in global context can be explained in terms of the following three phases:

1. **Argument Phase (before 1980):** This phase mainly concentrated on the argument for and against the need to develop a separate approach and body of literature to deal with the problem of marketing of services. Many contemporary marketing experts were in favor of application of the existing tools and techniques of marketing of goods to solve the problem of marketing of services. During this phase many other marketing academics argued that due to the distinct nature of the services a separate body of literature is required to deal with the problem of services marketing. They argued that the contemporary marketing theory and principles were found to be inadequate to explain the specific problem of the service sector, particularly the distribution aspects (Donnelly, 1978).

2. **Foundation Phase (1980 to 1985):** This was the most important phase in the development of service marketing. Much literature emerged in support of services marketing focusing on its special characteristics: intangibility, inseparability,

variability, and perishability. The service quality aspects were highlighted by Zeithamal, Berry, and Parsuraman (1981) through their quality 'gaps model'. Similarly other important areas of service marketing such as service encounters, relationship marketing, and internal marketing emerged strongly during this phase. Brooms and Bitner (1983) proposed the expanded marketing mix by including three more Ps – people, process, and physical evidence – for services marketing. During this phase, the first text books on service marketing began to emerge in US and Europe.

3. **Independent Phase (after 1986):** Since 1986 the field of services marketing has been accepted as an independent field of study. It has been included as a separate field of study in most of the universities' curricula.

Environment for Growth Service Marketing
The service sector has grown globally in the last three decades. Service industries in the field of transport and communication, tourism, food and allied services, entertainment and leisure time activities, and many more areas have emerged as one of the large contributors to every country's national productions.

The growth of knowledge-based industry particularly in computer software further accelerated the development of the service sector. Governments around the world began to recognize the service sector as a key accelerator of development from the examples provided by Singapore and Hong Kong. With the worldwide economic movement favoring privatization, liberalization, and globalization, the service sector emerged as the lead sector in many countries. These changes have been possible due to the following environmental factors:

1. **Government Policies:** Government actions at the national, regional, and global levels have moved in favor of the service industry. Economic liberalization movement forced most countries to deregulate the service sector. Privatization of government owned service organizations helped in the delivery of better quality services in the field of communication, water supply, and postal services. Barriers to entry into the service sector have been lifted to make space for international service companies after the formation of WTO.

2. **Social Changes:** The 21st century has brought a radical change in the social structure of most of the nations. Global movement favoring small nuclear family has enlarged the need for a variety of services including child-care, house-cleaning, laundry service, and many more. People have become more health and beauty conscious, and the result can be seen in the development of a variety of services focused on these demands. Society has become more competitive and complex. The development of education and information services is mainly focused on the needs of people to be better skilled and informed. People today are moving temporarily and permanently across the globe for better education, job, and life. This has also contributed for the growth in a variety of services for learning foreign languages, culture, and technology.

3. **Business Trends:** Business world has also adequately responded to the changes in government policies and social transformation. Manufacturers of goods today give more emphasis on the service components added to their products. Relationship

marketing has almost replaced the transactional marketing. Many manufactures have converted their service components as profit centers. Business organizations that have been traditionally in the manufacturing sector have come to the service sector through investments in banks, hotels, and airlines.

4. **Information Technology:** The rapid growth in the service sector has been possible through the radical development in the field of information technology. Information technology has not only made it possible for service organization to adopt on-line marketing of their services but also has brought the service providers and the service seekers more closer than ever. Databases on customers have made it possible for service organization to accurately understand the needs of customers and deliver satisfaction by offering the right service mix.

5. **Internationalization and Globalization:** Multinational service organizations operating in the field of services marketing are seen everywhere. They are in almost every country in the field of computer software development (Microsoft), telecommunications (AT&T,Hutch, Vodafone), Security (Group4), hotels (Hilton, Crown plaza, Sheraton), fast food (McDonald, Kentucky Fried) and so on. This movement for 'go global' has also made the national service firms to be more competitive. Franchise and licensing also has been started in the service sector. This has helped in the process of transfer of knowledge, technology, and financial resources across nations.

The global environment for services marketing is constantly evolving and competitive. Many small-time service providers in the field of house-keeping, security, plumbing etc. are losing their ground due to emergence of large organized companies. Neighborhood schools have been replaced by corporate schools. The ever changing environment is expected to bring new opportunities for marketing a variety of services as our society and economy changes in future.

NATURE OF SERVICE PRODUCTS
Service products are distinctly different from physical goods in their nature and characteristics. The following aspects of the service products make service marketing more complex than marketing of goods.
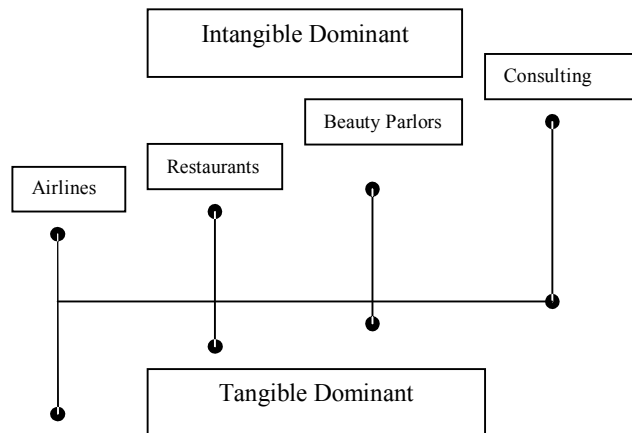
1. **Intangibility**
   Service products are mostly intangible. They cannot be seen, tasted, felt, heard or smelt before they are bought and consumed. The only information consumer has about the service are the promises of satisfaction. Intangibility of the service causes a great deal of uncertainty for buyers. Buyers look at tangible components, such as people, place, equipment and communication to reduce the uncertainty factor to an acceptable level.

   In service buying customers cannot make evaluations of the service quality before they buy them. Some services are fully intangible (e.g., a doctor's service, consulting, teaching etc.), some partly tangible and partly intangible (e.g. restaurants where food, furniture, and atmospherics are tangible and cooking and serving are intangible). Service providers also give emphasis on the tangible components to reflect the quality of their services.

The following figure presents some examples of service products with varying degrees of intangibility:

Figure 1.1: DEGREE OF INTANGIBILITY IN SERVICES

BOX 1.1 Intangibility Factor in Bank Service Marketing

A typical bank has many branches spread far and wide across the country. Banks do not have a chain of middlemen like distributors, wholesalers and retailers. A bank's products are intangible. For example, a bank is marketing a new housewives' saving scheme. This scheme cannot be seen, touched or felt in the manner one can do with a can of beer. How can the bank market this product? Using a brochure or an advertisement explaining the features or getting testimonials and endorsements from users and celebrities could be the starting point. In case of the beer a customer has previous experience with the product. In case of the saving scheme customers buy and experience at the same time. The customer does not have an opportunity of seeing the product and actually using it prior to opening the account. In such a situation the presence of a competent bank official makes the difference. The banker with his interactive skills can convince prospective customers about the merits of the scheme and the difference it will make in the housewife's future. Thus, personal selling becomes the key marketing tool to beat the intangibility factor in marketing of services.

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2. **Variability**

Services provided by different individuals and organizations widely differ in price and quality. The price and quality of service are dependent on: who provides the service, how they are provided and where they are provided?

Services tend to be more variable than goods in terms of the quality of the service provided to the customer. Quality of service of one organization to the other organization varies greatly due to the skill, dedication, and professionalism of the service delivery

personnel. The service quality of an organization changes as the assigned service delivery personnel changes. Thus, it is very difficult to apply the quality standards in marketing of services. Service providers try to maintain their standards by intensively training service personnel in technical and human relations skills.

Service industries normally make substantial investment in training of personnel to make them competent to provide better services to customers. They also give adequate attention on staff motivation to maintain a consistent quality of services. Some service providers give at-home services to customers for higher prices.

The variability characteristic of the service products has important implications in designing service marketing strategy. First, the service provider must be fully aware of the fact that the customer is going to be approached with a new service product. In this circumstance, the seller should be prepared for unexpected queries and questions from the prospective customer. Second, the service provider must accept that variability of the service products can never be fully eliminated; it can be reduced by adopting the following strategies:

i. **Fixing minimum standards:** Fixing norms for various actions and behavior of the service delivery personnel can minimize the variations in quality. For this, the service organization needs to make investments in hiring, motivating, and training service delivery personnel.

ii. **Reducing human element:** Most of the variations in quality of service results from the human component. Service sellers can reduce this variation level by reducing the human component. The introduction of the self-service restaurants, ATM services and Online banking are examples of the effort to reduce the human component in the service delivery.

3. **Inseparability**
   Services are normally inseparable from the service provider. The place of production and consumption of services are not separate. Because of the inseparability factor, the provider-customer interaction is very important in service marketing. The inseparability characteristic demands the presence of the service provider and the service seeker at the time of the service delivery and transaction.

   The seller-buyer interaction affects the outcome of the service transaction. This feature of service marketing is a strategic strength of the service firms. It helps the service provider to deliver a higher level of satisfaction through the personal contact with the service buyer. Furthermore, the level of satisfaction can be enhanced through the personality and behavior of the service delivery personnel. Many of the complaints and dissatisfaction can be turned into satisfaction and loyalty by tactful handling of the customers and their problems. The major strategic implication of the inseparability factor is to designing a very efficient customer service system and designing internal management that matches service product with service delivery personnel.

4. **Perishability**
   Service products cannot be stored as inventories. They must be produced and consumed at the same time and place. An airlines need to fly at the scheduled time even when only

20 percent of its seats are sold. This factor also contributes to the variability problem because every time a service product is delivered to the customer it takes a different shape.

Perishability poses problem for the service provider to manage the demand for services. Some services providers, such as telephone companies, airlines, hotels vary their prices according to time or seasons in order to shift the demand from peak to off-peak periods. The major strategic implication of this factor is the requirement for the service firm to continuously evaluate the delivery of service and reduce the gap between the expected quality and delivered quality.

Table 1.2: FEATURES OF SERVICE PRODUCTS AND MARKETING IMPLICATIONS

Features	Marketing Implications	Strategic Considerations
Intangibility	Service products cannot be seen or touched like manufactured goods.	Personal Selling
Variability	Quality standards are very difficult to implement in service products.	Norms and Automation
Inseparability	The seller and buyer are present in service transaction, and they together define the product.	Internal Marketing
Perishability	Service products cannot be stored and must be produced and consumed at the same time	Monitor gaps between expected quality and delivered quality

Types of Services
Services may take different forms depending on how the service is provided, to whom it is provided, who provides the service and whether the presence of the buyer is required during the service period.

1. **People based and equipment based services:** Services may be people based or equipment based. People based services use different levels of personnel skills in providing the service. Service of a doctor, lawyer, plumber, mason and a porter are people based. Equipment based services are provided with automated machines, such as vending machines, automatic car-wash etc.

2. **Personal and business services:** Personal services are provided to individual consumers and households. Personal care, health, travels, entertainment, amusement, repairs, maintenance, life-insurance etc. are examples of personal services. Business

services are provided to organizations. Advertising, market research, consultancy, insurance etc. are examples of business services

3. **Presence and absence of the buyer:** A service may be provided in the presence of the buyer or without his presence. Car repairs and tailoring services do not require the presence of the buyer during the servicing period. Beauty and health care services can not be provided to buyers without their presence.

4. **For-profit and non-profit services:** In terms of service provider, services may come from profit organizations as well as non-profit organizations. Profit organizations provide services for economic gain. Banking, insurance, entertainment, travels etc. are services provided for profit. Non-profit organizations provide services for social causes, such as education, hospital, family planning services etc.

SERVICE MARKETING MIX

Marketing strategy for services is not very different from marketing strategy for goods. Service-marketing also operates under the same environmental variables as marketing for goods. Service marketing also involves the location of target markets through market segmentation strategy. It requires the assistance of marketing research activities to plan the service marketing strategy. Service is developed and planned in similar manner as goods. Service marketing is also based on the traditional strategies built over product, place, price and promotion. However, due to the unique nature of services three more variables (3 Ps) - *people, physical environment and process* - are added on the original 4 Ps. The following section briefly describes the 7 Ps of service marketing.

Product
The service product is the main offer by the service producer to the service buyer. The service product mix should mainly consider the range of services offered, the quality level, and branding. The range of services offered by a service provider (e.g. a 5 star hotel) can be different from other service provider (e.g. a motel or a lodge) belonging to the same industry. The level of quality built on the service offers also significantly differs among the various service providers. The branding of service indicates the image of the service provider on the basis of which brand equity can be built upon. Some service organizations are also trying to include warranties and post-sales services in their product mix.

Place
The place in services marketing mainly involves the selection of the service outlets. Although many services are sold through a direct contact between the buyer and the seller, many service organizations have started chain of service outlets. In this mix the service company needs to decide where and how the services are to be delivered to the buyers. Service location is also influenced by the factor as how flexible are the service buyers to make a physical and mental efforts to buy the services. Many services such as plumbing, cleaning, baby-sitting etc. need to be provided at the buyer's residence.

Price
The pricing decision in services marketing is not much different from the goods marketing. However, the perishable nature of the services calls for the practice of a higher level of price discrimination than in pricing of goods. Since services can never be perfectly standardized

service providers can maintain a higher level of flexibility in determining their price. Pricing of services need to be based on the perceived delivered value and perceived quality of the service. Thus, service firm should have a precise estimate of the customers' perception of the delivered value and quality of its service as compared to its competitors.

Promotion

The promotion blend of the service marketing is similar to that of goods. It also includes advertising, personal selling, sales promotions, public relations, and direct marketing. However, in the promotion mix the role of personal selling and direct marketing has become highly relevant in marketing of services. The promotion blend in services marketing is affected by the levels of service encounters and the proximity between the service provider and the service seeker.

People

In service marketing, people are the critical variable as most services are provided through human resources. Therefore, the selection, training and motivation of employees are the important activities in service marketing. In fact, there is a service-profit chain in operation that links service organization's profits with employee and customer satisfaction. This service-profit chain consists of five links.

Figure 1.2: Service Value-Profit Chain
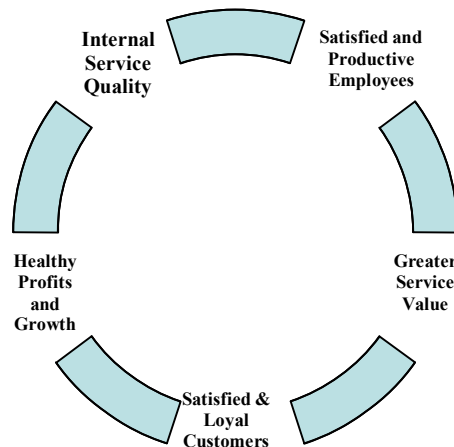
1. **Internal service quality:** Internal service quality is achieved through a high emphasis on careful employee selection, intensive training, a high quality of work environment, and a strong support for the front-line staffs who directly deal with customers. These activities are expected to result in satisfied and productive employees.
2. **Satisfied and productive employees:** Satisfied, motivated, loyal and hard working employees are able to create greater service values for the customers.
3. **Greater service value:** More effective and efficient customer value creations normally result in the development of a large number of satisfied and loyal customers.
4. **Satisfied and loyal customers:** When an organization develops large number of satisfied and loyal customers, it can achieve healthy profits and growth.
5. **Healthy profits and growth:** When it has more profit it can invest more on its employees that result in higher service quality.
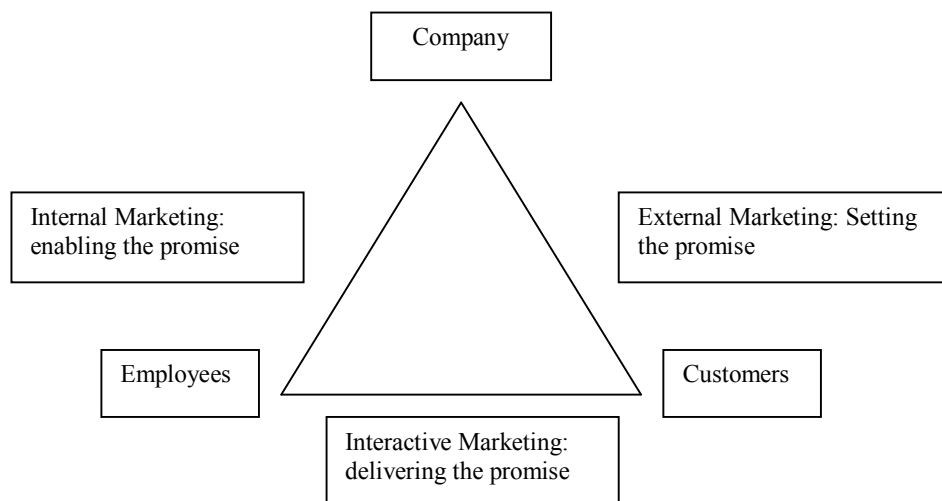
Physical Evidences

Most services are intangible and customers can not easily judge the quality of service until they buy and use the service. A service marketer also faces strong challenge to differentiate their services from competitors' services. Customers also find it very difficult to differentiate the services offered by various organizations. In this situation, service providers use *physical evidences* to communicate to customers about the quality of their services. Hotels present physical evidences of quality through an elaborate decoration of front offices, glamorous picture of the environment, rooms, food, drink, and their personnel. Similarly, airlines highlight their seating, food, drink and employee competence to communicate about the quality of service. Even a barber shop presents comfortable chairs, clean towels, and large mirrors as physical evidences of quality.

Process

Service differentiation is also achieved through a difference of service delivery methodology or process. Service providers can adopt a variety of delivery processes and charge different prices for its services. For instance, restaurants can be fast-foods, buffet or candlelight. They may offer continental, Chinese, Indian or Nepalese food. They may have bars, or the drink may be served at the table. Similarly, hotels can be bed and breakfast, lodges, non-star classes, star classes, jungle lodges etc. They may have golf-courses, swimming pools, tennis courts, health clubs etc.

THE SERVICE MARKETING TRIANGLE

In services marketing, there are three major parties involved – the company, customers, and the employees. Service firms needs to design an integration of these three major parties for successful competitive advantage in the service market. The following figure presents the service marketing triangle.

The company is the service firm that is guided by its long-term and short-term goals and priorities. The customers are at the receiving end. They have certain expectations of value and satisfaction from the services bought. The expected value and satisfaction to the customers are delivered through the service firm's employees. Thus, the priorities of these three parties could also be different. For instance, the company is interested on profit, growth, and sustainability. The employees' naturally expect a standard of living, recognition, and career growth. Customers expect value for their money and recognition from both the company and the employees.

The service firm needs to practice three types of marketing in the context of the service triangle – external marketing, internal marketing, and interactive marketing.

External marketing: External marketing mainly involves communicating with the target market. This involves setting the company's promise of value and satisfaction to the customers. The promise may be delivered through the promotion mix – advertising, personal selling, sales promotion, public relations, direct marketing. This external marketing sets the minimum expectations of the customers in terms of the attributes, end benefits and quality of the services. If the company fails to deliver the expected value and satisfaction it will rapidly lose its customers. In order to be competitive in the marketplace, the service firm has to effectively implement the internal marketing and interactive marketing.

Internal marketing: Service marketing not only requires external marketing but also effective internal marketing. Internal marketing is targeted at enabling the promised service benefits to the customers. Internal marketing includes all those activities undertaken by an organization to train and motivate employees to serve the customers well. Service oriented organizations, such as hotels and airlines make huge investments in their human resources. They strongly believe that every rupee spent on their employees is a capital investment that will eventually be returned to the organization.

Interactive marketing: Besides internal marketing, service organizations also need to practice interactive marketing in order to be able to deliver the service as per the promise. Interactive marketing describes the employees' talking skill while providing the services to the customers. Since most services are marketed directly, the quality of the service is dependent on the quality of the customer-service provider relationships. Customer satisfaction is fully determined by how the service provider interacts with the customers.

Thus, successful services marketing organizations must focus their attention on both their employees and their customers.

MANAGING SERVICE ENCOUNTERS

Most of the high-contact services demand a direct personal contact between the service provider and the service seeker. In low-contact services customers come into contact with service machines such as ATM and vending machines. Low-contact services are also provided over the telephone and Internet. Whenever customers come into the contact with the service provider or service employee or service machines it is termed as service encounter.

Characteristics of the Service Encounters

Service encounters have the following characteristics:

1. **Purposeful:** Whether the service provider or the service seeker takes the initiative all service encounters are performed with a specific purpose. The customer may visit a ATM machine to withdraw money or the home decorator visits customer's residence to provide the service.
2. **Interactive:** Most service encounters are interactive with a heavy exchange of information between the service provider/employee and the customer.
3. **Limited scope:** The service provider limits the delivery of the service to the extent of his/her expertise and does not normally go beyond his/her expected role.

Management of Service Encounters
Management of the service encounter is the critical element in the services marketing because at this time the customer comes into the contact with the firm's service mix – all 7Ps. There are several situations of service encounters. They may be analyzed in terms of the (i) level of use of tangible elements in providing the services, and (ii) whether the service is provided to the customer personally or to his/her possessions.

Some services are provided with heavy involvement of tangible element such as ATM services, fast-food restaurants, and transport services. In other services such as teaching and consultancy very little tangible elements are involved. Management of service encounters becomes difficult when services have low tangible elements and are of high-contact nature. In low-contact services that are provided with high tangible elements the management of service encounter is less complex.

In some services, the customer personally is the recipient of the services. For example, hair-cutting, beauty parlor, massage parlor, consultancy, tuition, baby-care services require the presence of the customer during the entire service production process. In these services, the service provider targets to influence the mind of the customer. Management of service encounter in such situation is complex and difficult.

Some services are provided to the customer's possessions such as motorbike servicing, appliance repairs, home decorations etc. Such services also do not require the presence of the customer during the service production process. Customers evaluate the quality of the service on the basis of the end results. Such service encounters becomes easy to manage.

Service Encounter and Level of Customer Participation
The management of service encounters is affected by the level of customer participation in the service production and delivery process. In this context, three situations are seen in the field of service marketing.

1. **Low participation: Customer presence not required:** If the service products are highly standardized and every service buyer receives the same service benefits, management of the service encounter becomes easy. In such services, the customer receives the service and makes payment as his/her input. Examples of such services are fast-food restaurants and gas (petrol) stations.
2. **Moderate participation: Customer inputs required for service creation:** Services that require some degree of customization require the presence of the customer during the service production and delivery process. Examples of such services are health-

checkups, hair-cuts, and full-service restaurants. The encounters in such services become more complex than in delivering standardized services.

3. **High participation: Customer and service provider co-produce the service:** Some services such as skill-based training, management counseling, and slimming courses require full cooperation and participation of the customer for production and delivery of the service. Such encounters are very difficult to manage.

Human Factor in Service Encounters

Except for some services where the encounters are limited to customer-machine contacts, most services are provided with service provider-customer contacts. Due to this factor, service firms need to focus heavily on the quality of its service personnel in terms of technical and inter-personal skills. In service organizations, service employees are both producers and marketers. Service employees must take the following issues very seriously during the service encounters:

1. **Recovery:** Help customers solve their problems irrespective of the fact that the problem may have emerged due to technical or personal reason.
2. **Adaptability:** Adapt the service delivery according to the need of the situation arising during the service production and delivery process.
3. **Spontaneity:** Attend to the customer as promptly as possible.
4. **Coping:** Service employee must be able to cope with any unanticipated situations during the encounters. The situations often results from misunderstanding between service provider and the customer or due to the misbehavior of one of the party involved in the service transaction.

MARKETING PLANNING FOR SERVICES

Marketing planning for services is not much different from marketing planning for goods. The planning involves three major areas: strategic analysis, strategy development, and strategy implementation. The services marketing plan is based on the corporate missions and objectives. The marketing department performs environment audit that includes a strategic analysis of the external and internal factors affecting the service business. The external environment audit helps the service firm to identify opportunities and threats emerging in the market. The internal environment audit helps in evaluating internal capabilities (assets and competencies) to capitalize on the emerging business opportunities. The service marketing planning process involves designing appropriate strategies to deal with the opportunities and development of an implementation design and program. Thus, the service marketing planning process is summarized into the following steps:

1. Corporate Missions and Objectives: Corporate missions provide a clear direction to the preparation of the services marketing plan. The mission statement should be visionary, clear, and concise. An organization's mission statement should describe the role of the organization in the market and states where the organization would be in the industry after five to ten years. The mission statement should also focus on the nature and quality of service to be delivered to the target customers including what values would the firm deliver to the customers. A good mission statement also provides a competitive framework that explains the bases of competition of the service firm. The corporate objectives or goals are targets in terms of size of customers, market-share, or returns on investments. The targets are set on the SMART principle - specific, measurable, achievable, realistic, and time bound. The corporate goals are designed in line with the corporate missions.

2. Marketing Opportunity Audit

Service organizations conduct a detailed audit of the external and internal factors before they design their service marketing plan. External audit is an in-depth analysis of the external factors that includes customers, market, competitors, and environment.

a. Customer Audit

Customer audit is performed over several aspects which are as follows:

➤ **Identification of target customers and their needs:** The customer audit begins by identifying the target customer groups through market segmentation. Once the target customers are identified their profile is constructed based on their demographic and psychographic characteristics. A service need gap analysis is performed to identify the potential for delivering new or improved services to the target customers.

➤ **Measurement of customers' perception:** Customer audit is focused on measurement of customers' perception of the service quality. The perceived service quality constitute of four major variables - reliability, responsiveness, assurance, empathy, and tangible elements such as equipment and atmospherics.

➤ **Collection of customers' expectations:** Customer expectations are beliefs about service delivery. Service firms must first collect customers' expectations in order to

design their service quality strategy. Service expectations have a range between "minimum tolerance levels" to "ideal expectations." Most expectations are built around a reference point which can be a competitor's service. Usually, the actual expectations are between these two points and may be termed as the "adequate level." Thus, the customer analysis should collect information regarding the three levels of expectations.

b. Market Audit
Market audit evaluates the attractiveness of the service market. The market attractiveness is measured in terms of long-term profit potential and sustainability. The analysis is focused on understanding the market trends (upwards or downwards), new service opportunities, threats and uncertainties, and assets and competencies required to be successful in the market.

c. Competitor Audit
Competitor audit involves identification of the main competitors and an analysis of their strengths and weaknesses, their performance, image, objectives, and strategies. It provides important insights into designing the service quality strategy along with service positioning. The design of the service marketing strategy is based in the context of the nature and size of competition.

d. Environmental Forces Audit
Environment examines environmental trends and events that may affect the marketing strategy and estimate their likelihood and impact. It also helps the marketer to identify service marketing opportunities in the trends and mega-trends emerging in the economic, demographic, technological, socio-cultural, and politico-legal environment.

3. Internal Strengths and Weakness Analysis
Marketing is mainly focused on development of marketing strategy based on the objectives, strengths, and capabilities of the business firm. Therefore, in addition to external analyses, the firm must undertake internal analysis. The major objective of internal analysis is to understand the depth of the business, particularly in terms of the performance of the business. Internal analysis provides a good estimate of the service firm's assets and competencies and points out areas where improvements are needed.

4. Formulation of Marketing Goals
After a careful and in-depth analysis of the external and internal factors, the service firm should design its marketing goals. The marketing goals are specific targets to be achieved by the firm in terms of the following dimensions:

  ➢ Sales
  ➢ Market-share
  ➢ Customer satisfaction
  ➢ Brand image
  ➢ Profit

5. Design Strategies

This stage requires designing appropriate strategies to achieve the marketing goals, corporate objectives, and the firm's missions. The service marketing strategy is developed at two levels. At the first level, the service firm develops its grand strategies in terms of firm's strategic focus options (cost-leadership, differentiation, or focus), and growth strategy options (penetration, service product development, market development, or diversification). At the second level, the marketing department develops the service marketing mix related strategies taking into account the 7Ps of service marketing. The service mix strategy should clearly define the service product's target segment, positioning, and value proposition to customers.

6. Develop Marketing Programs, Budget, and Control Systems

The marketing program is a detailed breakdown of activities required to implement the marketing strategies. It specifies the activities to be implemented, time-frame, responsibilities, and expected results and risks. At this stage, the planner also has to develop a good estimate of the expenses required to implement the activities. The plan should also determine the reporting, monitoring, evaluating, and controlling systems to keep the implementation in the right track.

Chapter II

RELATIONSHIP MARKETING AND SERVICE QUALITY

RELATIONSHIP MARKETING

Concept

Relationship marketing is a paradigm shift within marketing. Relationship marketing has emerged from the 1980s as a key concept in marketing literature and has been widely adopted by organizations in the contemporary business world. Relationship marketing shifts attention from short-term transaction and immediate profits toward a process of creating customer value through building long-term relationships with customers.

The modern relationship marketing can be better understood if it is contrasted with the traditional transactional marketing. In transactional marketing the focus is on sales and sales are achieved through the effective implementation of marketing mix. Sales are perceived to be the result of immediate actions such as aggressive selling, sales promotions, or advertising.

Relationship marketing's focus is not on immediate sales; rather it is directed at building a large group of satisfied and loyal customers. Customer retention and winning back lost customers are the key strategy in relationship marketing. Relationship marketing uses sustained long-term efforts in delivering value to the customers and profit to the firm.

Relationship marketing has the aim of building mutually satisfying long-term relations with key parties – customers, suppliers, distributors- in order to earn and retain business.

In a competitive market, it is not enough to build relationship only with customers; it is equally important to establish relationships with the vendors, intermediaries, and other influence groups. Relationship marketing is adopted by smart marketers who try to build up a long-term trusting win-win relationship with valued customers, distributors, dealers, suppliers and other stakeholders.

This approach is directed at building strong economic, technical, and social relationships with the parties concerned over a period of time. The objective of relationship marketing is to build a valuable company asset popularly known as marketing network. Today, the real competition is not between companies; rather it is between marketing networks.

Dimensions of Relationship Marketing

Relationship marketing has three dimensions:

- The view of companies about customers is changing. The emphasis is shifting from transaction-based marketing to relationship based marketing.

- A broader view is emerging of the markets with which a company interacts. In addition to their relationship with customers, companies are increasingly concerned about their enduring relationships with suppliers, middlemen, stakeholders (owners and employees), and other influence groups. The focus is also on internal marketing where all employees are trained and motivated to work for customer satisfaction.

- A strategy to bring the three key elements – quality, customer service, and marketing activities – to work together in order to produce synergistic effects for the benefit of the customers and external agencies.

Relationship Building Process

Different levels of relationship can be developed with customers. The extent to which an organization practices relationship marketing depends on its investment (time and money) in building the relationship. Relationship marketing involves a long-term process of building satisfied and loyal customers. This process can not be executed in a short period of time. It requires sustained enduring efforts on the marketer to convert customers with different levels of commitment towards the firm's product or service. The process is explained below:

- **Suspects:** Most firms start from the pool of suspects. Suspects constitute of every one who has the possibility of buying the firm's product or service.

- **Prospects:** From the pool of suspects the firm identifies customer groups who are most likely to buy the product or service.

- **First time users:** This group constitute of customers who have bought the firm's product or service at least once. Depending on their level of satisfaction or dissatisfaction they can be either repeat buyers or defectors.

- **Repeat customers:** This group had positive experience with the first trial and have purchased the firm' product or service for the second and third time. This group has the potential to be become loyal customers if the firm tries to build relationship. In absence of the firm's effort to build the relationship the repeat customer may switch to competing firm's product or service.

- **Clients:** This group consists of the loyal and satisfied customers who normally buy the firm's product or service for a longer period of time. Marketers need to work closely with clients so that they maintain long-term loyalty.

- **Members:** In relationship marketing, some firms organize business clubs from among their loyal customers and offer the members of the club several benefits so that they remain loyal for ever.

- **Advocates:** From among the members of the business club, the firm tries to convert some customers into advocates who are vocal and who openly recommend the firm's product or service to prospects and first time users.

- **Partners:** The ultimate objective of relationship marketing is to convert some of the advocates into the firm's partners who work together with the firm for mutual benefits.

Customers in any of the above category may experience dissatisfaction with the firm and its product or service at any point of time and move to the ex-user pool. They might cease to use the product or defect to competitors' product when better offers are made by the competitors. Therefore, the major focus of relationship marketing should be on delivering better value to the customer than what is offered by competitors.

Maintaining Relationships: Life-time Value of Customers

In relationship marketing the value of customers are calculated in terms of the length of the 'stay' of a customer with the firm. Firms that practice relationship marketing focus on

maintaining the 'life-time value' of customers indicating that satisfied customers stay loyal during their entire life-time with a firm and its products. Relationship marketing becomes successful if it focuses on customer retention and reduces customer defection to competitors' products. Customer retention is the key to success in the competitive business environment. The key to customer retention is customer satisfaction. A satisfied customer is a great asset to a firm in the following ways:

- Remains loyal for longer periods

- Buys more of the firm's products

- Talks favorably about the firm and its products

- Pays less attention to competitors' advertisements and offers

- Provides ideas to the firm

For this a firm needs to regularly monitor the post-purchase satisfaction level of customers and establish a system for listening to customers' complaints and taking actions.

A firm selling mass merchandized consumer items of low to medium profit margins may adopt reactive marketing. If a mass merchandized product gives high profit margin, the firm may adopt accountable marketing. A firm selling a product with high profit margin to a medium number of customers (e.g.: consumer durables) may adopt proactive marketing. If a product gives medium profit margin and its size of customer is also small, the firm may again adopt proactive marketing. Partnership marketing, the most advanced form of relationship marketing, is feasible only when a firm is selling a product with high profit margin to a small number of customers.

## SERVICE RELATIONSHIP STRATEGIES

The core focus of all relationship marketing strategies in the service industry lies in three activities: 1. Quality in the core services, 2. effective market segmentation, and continuous monitoring of relationships.(Zeithaml and Bitner, 2003).

(a) **Quality in the Core Service:** Relationship marketing can be successful only when the service firm has a solid base of service quality that provides customer value and satisfaction. In terms of the quality the firm should be able to compete in the market.

(b) **Market Segmentation and Targeting:** Relationship marketing must define the target group of customers with whom it wants to build relationship and sustain for a longer duration. For this it has to effectively segment the market and identify its target group of customers.

(c) **Monitoring Relationships:** The service firm must regularly monitor the quality of relationships with its customers. Market research in the form of *an annual relationship survey* provides a good measure of the changes in the quality of relationships.

SERVICE SEGMENTATION AND TARGETING STRATEGIES

Market segmentation is a customer-oriented philosophy that seeks to identify need and want clusters in the market and develop marketing mix and program to satisfy those needs and wants. It is the basic tool for the implementation of the marketing concept. The implementation of segmentation strategy in service marketing is not different from marketing of physical goods. It moves through the five stage process:

1. Identify bases for segmentation,

2. Conduct segmentation surveys and draw profiles of the segments,

3. Evaluate segment attractiveness,

4. Select Target Segments, and

5. Secure compatibility of the segments.

Identify Segmentation Bases	→	Survey and Profiles	→	Segment Attractiveness	→	Select Segments: Targeting	→	Secure Compatibility of the Segments
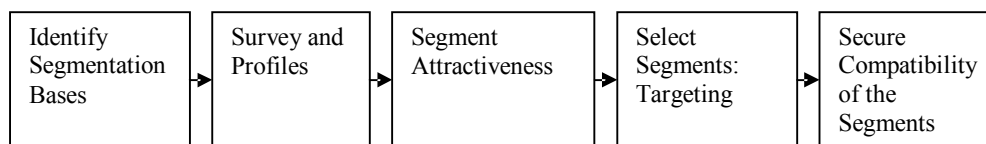
Bases of Segmentation

A market consists of buyers who differ in terms of their needs, buying power, buying motives, buying attitudes and locations. Market segmentation recognizes this reality and divides the total market into distinct group of buyers having different needs and characteristics. For this purpose, the firm may use demographic variables (gender, age, income, occupation, ethnicity etc.), psychographic variables (motivations, personality, and life-style), or behavioral variables (use, service knowledge, marketing factor sensitivity etc.).

Segmentation Survey and Profiles

For segmentation a large-scale survey of consumers need to be conducted with the help of market research focusing on generating the demographic, psychographic, and media graphic profiles including their current use of services, satisfaction levels, and brand attitudes. Once the survey is complete, the data is analyzed to draw segment profiles that reflect on the segment characteristics.

Evaluate Segment Attractiveness

The market segments are evaluated on the three basic criteria: segment size and growth, segment structural attractiveness and organizational objectives and resources.

Segment evaluation involves an assessment of the size and growth characteristics of the market segments. The information on the size and growth is collected on the basis of current sales, sales growth rates and profit potential of the various market segments.

Profit is the major objective of every business organization. Therefore, the market segments need to be evaluated from the profit point of view. Some segments may offer attractive short-term profits that may evaporate in the long-run. The profit potentials of the market segment need to be evaluated from the long-run perspective. Besides the profit, market segments need to be evaluated in terms of their structural attractiveness.

The organization has to evaluate the market segment in terms of its objectives. Many organizations select market segments that are consistent with their objectives. Business organizations that want to maintain an environment-friendly image do not easily enter into a venture that pollutes the environment.

Select Target Segments

Once the market segments are evaluated the service firm selects the market segments to enter. In this stage, the service firm selects market segments that look attractive from the points of view of size, growth and long-run profit potentials. It involves information collection and analysis on estimate of total demand for the product, the market share of competitors, the relative strengths of competitors, the organization's resources to meet the challenges, and possible marketing mix alternatives for the segment.

Secure Compatibility of the Segments

When a service firm has to operate under the multi-segment strategy it must secure a degree of compatibility among the segments. Selection of market segment requires the establishment of some inter-segment relationships on costs, performance and technology aspects. Such relationships are important to lower the costs and achieve some synergy.

SERVICE QUALITY

Approaches to Service Quality

In services marketing the quality of service delivered to customers is the most important element. It is the key element of customer satisfaction and relationship marketing. However, what we should understand by quality is the 'quality perceptions' of customers.

There are several approaches to define the service quality. Garvin (1984) has identified the following five different approaches:

(a) **Transcendent approach:** This approach uses the dictionary meaning of quality that measures the difference in quality through the relative possession of features and benefits. For example, a five-star hotel will be perceived to be higher quality than a three-star hotel.

(b) **Manufacturing quality approach:** This approach uses quality measures in terms of the quality control of the service production process that results in defect free services according to preset standards. If a doctor's diagnosis and treatment of sickness results in complete cure, it is perceived as high quality.

(c) **User-based approach:** If a service meets the minimum expectations of the customer, it has quality. Thus, a factory worker may perceive the quality of a China made hundred rupees wrist-watch if it works for more than a year.

(d) **Product-based approach:** This approach uses some measurable yardstick to determine the quality of a service. For example, if a hairstylist takes less than 30 minutes to cut hair, the customer may perceive it as having low quality.

(e) **Value-based approach:** This approach uses conformity to traditional values and norms. If the service conforms to traditionally held values and beliefs, it is perceived to have quality. For example, if a pundit chants the mantra in Sanskrit instead of Nepali, his service is perceived as of high quality.

Contemporary Approach

The contemporary research into consumer behavior has identified the factors that determine the quality of service. Consumers evaluate the service quality through three important elements of service marketing: outcome, interaction, and physical evidences.

(a) **Outcome:** The outcome of the service is influenced by the process of the service delivery. The net outcome is determined by the difference between the service promise and the delivery of the service. If the delivered service (value) is greater than the promise, customers perceive the service as high quality. If the delivered service (value) is less than the promise, customers perceive the service as of low quality. Other factors that influence the quality perceptions are the service design, price, and the human elements.

(b) **Interactions:** Customers' experience of the service encounters often influences their quality perceptions. In high-contact services, encounters often dominate the quality perceptions.

(c) **Physical evidences:** Often customers evaluate the quality of a service in terms of the tangibles such as appearance of the physical facilities, personnel, equipment, information materials etc.

Dimensions of Service Quality

Customers are found to use a multidimensional approach to determine the service quality. The type and number of dimensions used across the various services also differs. Parsuraman, Zeithaml, and Berry (1991) have identified five dimensions of service quality that can be used across the service products. These five dimensions are as following:

(a) **Reliability:** *Explained by the ability to perform the promised service dependably and accurately*. This is the most important dimension of service quality. In order for higher level quality perception the service firm should be able to deliver satisfaction in terms of the promised time, service standard, service attributes, and overall service outcomes. The FedEx and UPS have high quality perception mainly due to their high reliability in delivering packages.

(b) **Responsiveness:** *Explained by willingness to help customers and provide prompt service.* This dimension focuses on attentiveness and promptness in dealing with customers' problems, requests, and complaints. The time factor is very important in this dimension.

(c) **Assurance:** *Explained by employees' knowledge and courtesy and their ability to inspire trust and confidence.* This factor becomes very important in determining service quality of companies that deal in high-risk services such as insurance, banks, medical care, and legal services. Customers evaluate the service quality in terms of the experience and expertise of the service firm and its personnel in developing a sense of trustworthiness of the firm in its business.

(d) **Empathy:** *Explained by caring, individualized attention given to customers.* In this dimension the customization of the service by giving personalized attention to the

customer becomes important. Understanding of the customer's perspective, their special needs and preferences are very important in enhancing the quality perception.

(e) **Tangibles:** Explained by appearance of the physical facilities, equipment, personnel, and printed materials. Tangibles provide the physical representation of the service quality that contributes to the development of the image of the service firm.

The Service Gap Model

The entire focus of the services marketing strategy is to narrow the gap between customers expectations (service firm's promise) and service quality perception (value delivery to customers). These two points – expectations and perceptions are known as customer gaps. In order to close this gap, the service firm must narrow down four other types of gaps known as provider gap. These gaps are as following:

(a) **Provider Gap 1: Knowledge Gap:** Service firms do not know and understand what customers expect.

(b) **Provider Gap2: Design Gap:** Service firms do not select the right service designs and standards.

(c) **Provider Gap 3: Delivery Gap:** Service firms do not deliver services according to set standards.

(d) **Provider Gap 4: Matching Gap:** Service firms do not match performance to their promises.
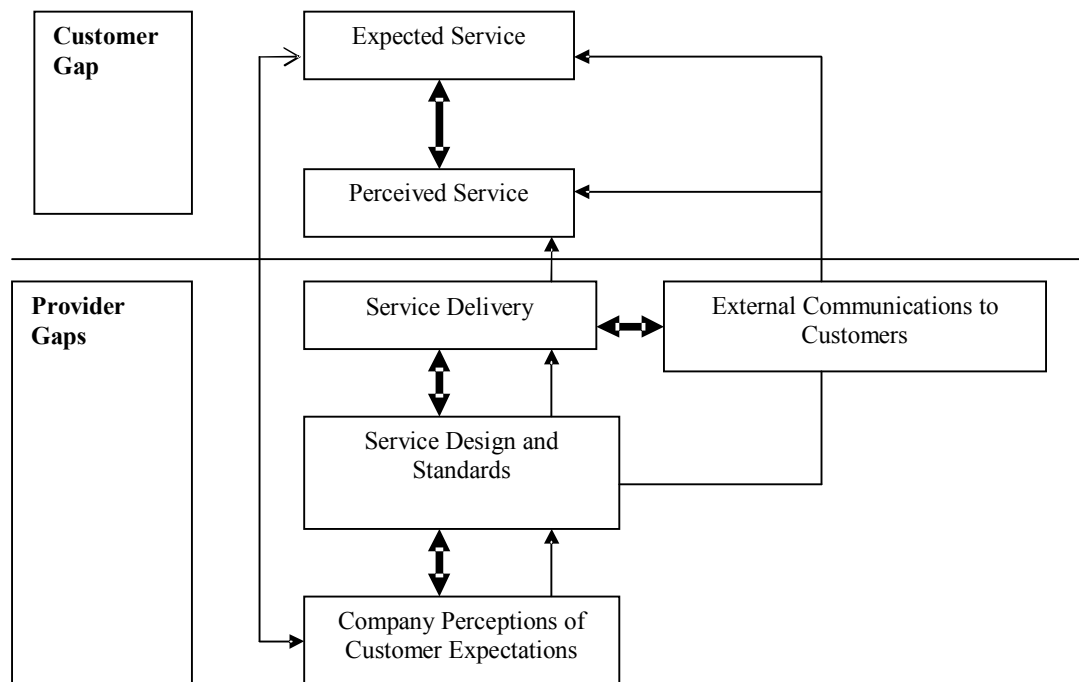
Customer Gap

The customer gap is the gap between customer expectations and customer perceptions. Both expectations and perceptions are subjective measures.

Customer Expectations: Customer expectations are reference points against which service delivery is compared. Thus the expectations of individual customer may vary since each individual is likely to use a different reference point. Moreover, level of expectation can also vary between ideal expectations (high) to minimum tolerable expectations (low).

Customer Perceptions: Customers' perception is based on the level of satisfaction they experience after the purchase and consumption of the service. Thus, it is a post purchase outcome. The perceived quality is based on the five dimensions of service quality, which a customer evaluates through the encounter (interaction quality), physical evidences (tangibles), and outcome (satisfaction).

Closing the Customer Gap: The service marketing strategy should target at closing the customer gap. The service firms must first narrow down all of the provider gaps in order to close the customer gap. The service firm must know through market research what customers expect in the service products; must design its services according to customers' expectations; deliver the services according to the set standards; and match the service performance according to promises.

Provider Gaps

Provider Gap 1: Knowledge Gap: This gap exists mainly due to inadequate knowledge about customers' expectations. Such gaps may exist due to several reasons such as insufficient market research, lack of communication from the market to the company, insufficient focus on relationship marketing and inadequate effort on bringing back lost customers.

Provider Gap2: Design Gap: This gap results due to inability of the service organization to translate customers' expectations into service design. Such gaps occur when a service organization has a good idea of what its customers want but fails to include their expectations in designing the service in terms of service mix (7Ps). Intangibility factor involved in service products pose difficulty in matching service design with expectations. Most of the design gaps result from absence of customer-defined standard, weak servicescape (tangibles), and inappropriate service positioning.

Provider Gap 3: Delivery Gap: This gap exists due to discrepancy between service standard and actual service performance by the service employees. This gap is a major cause for customer dissatisfaction in the service industry. Ineffective HR policies that result in wrong recruitment, role conflict, poor employee morale often cause delivery gaps. Often, inability of the service firm to match supply with demand causes delay in service delivery. When services are delivered through an intermediary the service firm faces difficulty in controlling the service delivery process.

Provider Gap 4: Matching Gap: This is the gap between the service delivery and the firm's external communications. Service firms make promises on service design, standards, attributes, and benefits through advertising, salespeople, and other communications.

Customers also form their expectations based on these external communications. When customers find the service performance less than their expectations they are most likely to be dissatisfied. Very often over-promising and under-delivering cause this gap.

Quality Traps
Quality traps are pitfalls that occur due to misconceptions about service quality. The most common quality traps are explained below:

1. **Changing employees' mindset through internal marketing:** Service firms try to educate and re-educate their employees through internal marketing messages from the top management. Such messages are bound to be rejected unless they are based on logic and employees' past experience. Simply 'preaching' does not change peoples' mind and attitude.

2. **Investment in Training to Change Attitude:** Investment in training employees will be wasted if too much training is provided, particularly training focused on attitude change rather than skill.

3. **Building Service Culture through Cosmetic Changes:** Service firms must build a strong customer focused service culture. However, it takes a long-term sustained effort to change employees' beliefs and values that needs to be handled subtly. Simply changing slogans, logo, mission statements, or design of the firm's brochure cannot establish service culture in an organization.

4. **Full Employee Involvement:** Service firms focus on involving the entire staff in production and delivery of a high quality services to customers. But this is difficult to achieve in the short-term since every employee is involved in personal problems. Thus, it is very difficult to get full employee commitment in service firms.

5. **Quality Circles:** Many service firms believe that simply introducing quality circles in their organization can bring quality in services. Quality circle, a Japanese concept can work only in those cultures where collective thinking prevails.

6. **Setting Service Standards:** Some service organizations have a misconception that the service quality can improve if the organization sets a service standard. In reality, the firm should allow its customers to decide on the service standard. Setting operational standard has no impact on delivery and perception of the service quality.

7. **Indicators of Success:** Often service firms use hunches and intuition to measure their success in delivering service quality without taking customers' feedback. Success can be measured only through a comprehensive market research on the service quality.

Improving Service Quality
The basic strategy for improving the service quality is to reduce the customer gap by narrowing down the provider gaps. Some of the measures directed at improving the service quality are as following:

1. **Identifying Quality Determinants:** The primary step in quality improvement is know what is meant by quality for the target customers. The service firms must know the specific dimensions of the quality applicable to a particular type of service by a particular group of buyers. For this, the firm should undertake qualitative research to find out the specific indicators of quality as expected by the target customer.

2. **Managing Customer Expectations:** Service firms must never do anything to raise customers' expectations of the service quality. The focus should be on meeting on expectations and delivering the promise.

3. **Managing Physical Evidence:** Service firms must manage its tangible effectively and efficiently to provide a high-quality out look and perception. Use of appropriate designs, colors, music, furniture, paintings create moods and pleases aesthetic conscious customers.

4. **Customer Education:** Service firms must continuously educate customers on new trends, designs, technology, delivery mechanism etc., to help consumers adopt new quality indicators.

5. **Developing Quality Culture:** Service quality is fully dependent on the quality culture within the organization. Service firms must make every effort to develop an internal quality culture.

6. **Increase Tangible Components:** Service firms should focus on decreasing the level of service encounters by some degree of automation such as SMS and online banking.

7. **Monitor Service Quality:** Service firms must regularly monitor their service quality by assigning market research to measure customers' expectations, perceptions, service design, delivery, and marketing communications.

Chapter III

SERVICE MARKETING STRATEGIES

SERVICE PRODUCT STRATEGIES

Concept of a Service Product

The service product is the totality of benefits a customer receives while buying and using a service. The service product has been interpreted from two different perspectives: (a) consumer benefit, and (b) service concept.

Consumer benefit concept: According to this concept a service product is what customers perceive it is and how it benefits them. Thus, according to this concept "the true nature of the service can be perceived only by the consumer…" (Bateson).

Service concept: This concept views a service to have two levels: core service and specific service. For example, a restaurant may offer a variety of food and drink as its core service, and offer home delivery as its specific service. Service firms translate the service concept into a service formula. The service formula includes service attributes, consumer benefits, service process, and target customers.

Service Life Cycle

Service products are like living beings: they are conceived, born, grow, achieve maturity and finally die. During the conception and development phase, the service is in their pre-natal stage that is explained by the new product development process. After its introduction (birth) into the market and until its final elimination (death) it passes through four stages: introduction, growth, maturity and decline. This process is popularly known as product life cycle (PLC). The product life cycle depicts the sales history of a product over time. The sales history of the product is presented graphically in the form a curve.
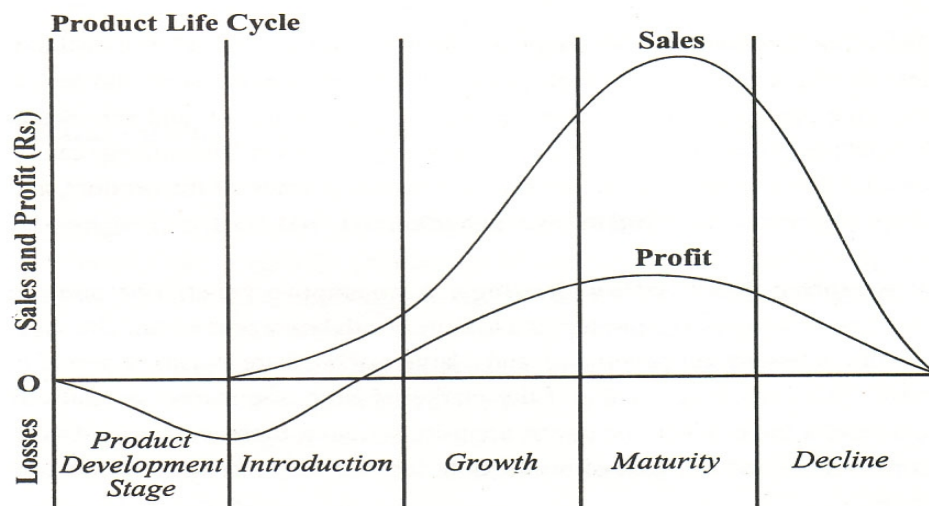
Introduction Stage

The introduction stage starts once the service product is commercially launched. This stage is characterized by slow growth of sales. This is mainly because, buyers are not aware of the existence of the new product and they are reluctant to change their established buying habits. During this stage only a small group of consumers known as market pioneers buy the new product. The firm is unable to predict the success of the product in the market and keeps the production at a low level. Since the product is new there could be several technological problems in the product. Price of the product tends to be generally high due to high costs of production, distribution and promotion. Due to high costs and slow growth of sales profits from the product tend to be negative. The innovator firm does not face any competition during the introduction stage.

Marketing Strategies: During the introduction stage the marketing firm has no strategic choice in the area of product and distribution. It has to play with price and promotion tools. With price and promotion variables the firm may adopt one of the following four alternative strategies:

1. **High profile strategy:** A high profile strategy consists of introducing the service product with a high price and high promotion levels. This strategy is implemented to skim the market in a short period of time.

2. **Selective penetration strategy:** A selective penetration strategy consists of introducing a service product with high price and low promotion. This strategy can be applied if the market is small; most of the market is aware of the service; and those who want it can afford to pay a higher price.

3. **Preemptive penetration strategy:** A preemptive penetration strategy involves introducing the service product at a lower price with heavy promotion. This gives the firm a rapid market penetration and larger market share in a short period of time. This strategy is suitable if the market is large; the market is relatively unaware of the service product; and the buyers are price sensitive. **Low profile strategy:** The low profile strategy involves introducing the product under low price and low promotion levels. Lower price is targeted at fast market penetration and lower levels of promotion at keeping the marketing costs down. This strategy is suitable if the market is large; the market is aware of the service product; the market is price sensitive; and there is some potential competition.

Service Product Life Cycle Stages

Growth Stage

Many new products fail during the introduction stage because they can not gain buyer acceptance, or are economically and technically unfeasible. If the product can cross the critical stage of introduction, it enters the growth stage. Sales increase dramatically during the growth stage of the PLC. The early adopters continue to buy the new product and large numbers of new buyers from the early majority adopt the product. The firm corrects technical defects in the production process and the product. It also adds new features and refinements

on the product. The firm moves the product into new market segments. Prices tend to remain at introduction level or fall slightly. Promotion is also maintained at the previous level. The high turnover and constant promotional costs give a high profit per unit to the firm.

Marketing Strategies: During the growth stage, the organization uses the following strategies to sustain the rapid market growth as long as possible:

1. **Improve quality of the product:** Many products have technical problems during the introduction stage. These technical problems need to be solved during the growth stage. The organization has to make every endeavor to improve the overall quality of the product in this stage.

2. **Add new features and models:** Market growth is the best time to introduce new features on the product. A firm may also extend the product line and introduce new models. The reputation of the main product can easily attract buyers for the new models and brands. The new models can be promoted on a minimum of additional promotional costs.

3. **Enter into new market segments:** In the introduction stage an organization normally enters and establishes strong foothold in one market segment. During the growth period the organization should move into new market segments for rapid market expansion.

4. **Use new distribution channels:** In the introduction stage the firm may face difficulty in finding distributors for the new product. During the growth period many distributors show their interest in the product. This is the appropriate time to use multi-distribution system to achieve wider market coverage.

5. **Change advertising theme:** In the introduction stage the advertising is targeted at building buyers' awareness and knowledge about the product and its various attributes. During the growth period the advertising objective will be focused on building buyers' conviction and brand loyalty.

Maturity Stage

When the growth in sales slows down the product enters the maturity period. Initially, the product enters a growing maturity when the growth in sales is slower than in the growth period. When the sales stop to grow the product enters the saturation stage. Ultimately, sales start to decline slowly in the declining maturity phase. For many service products, the maturity stage lasts longer than other stages. During this phase the organization may face several problems and requires major modification in strategies and tactics.

During the maturity stage, the major buyer group constitute of the early majority and late majority. Although this buying group is very large in number they are mostly price sensitive and seek products at lower price with several benefits. Attracted by the higher sales and profit during the growth stage many new firms enter into the market. As a result, the firm faces stiff competition from similar and substitute products. Competitors reduce their prices forcing the service firm into price cuts. The organization spends heavily in sales promotion to attract new buyer groups. The slow down in sales, higher marketing costs, and lower revenue result in gradual erosion of profits.

Marketing Strategies: During the maturity stage an organization's efforts are directed at avoiding fast decline in sales. The organization may prolong the maturity period by adopting the following strategies:

1. Market modification: The market modification strategy searches new buyers for the product. A firm can attract new buyers in three ways: convert non-users into users, enter into new market segments and win competitors' customers.

- **Convert non-users into users:** The firm may enlarge the size of its market by inviting non-users to use the product. This may be achieved by introducing new sales promotional tools or price cuts targeted at the non-users.

- **Enter into new market segments:** This involves search for new market segments that were neglected in the growth period because they were small in size; had lower growth rates; and provided small profit opportunities. Market expansion to some extent can be achieved by entering into these new segments.

- **Win competitors' customers:** A firm may launch a promotion campaign targeted at competitors' customers and tempt them to switch their brand in favor of the firm's brand. This can help to get some more buyers for the product.

2. Service Product modification: During maturity period several organizations modify their service products to satisfy the needs of the buyers. Product modification involves changing product quality perceptions through modifications in tangible components of the service.

3. Marketing mix modification: Under marketing mix modification, a firm may retain current sales volume by changing one or more components of the marketing mix. Many organizations launch aggressive sales promotional campaigns to push-sell their matured products. The objective of advertising will be to remind the buyers about the brands. Temporary and permanent price reduction is a popular strategy for the maturity period.

Decline Stage

Most products eventually enter the decline stage. The decline may be very rapid for some products while others may face slower decline. As sales start to decline, intelligent firms withdraw their products from the market. Those who continue rapidly reduce their prices and try to attract price sensitive buyers, particularly the laggards. Eventually, all products reach a stage of zero sales.

The major objective of the firm that continues with the product in the decline stage is to survive and make some profit out of the product. Firms normally reduce their service product lines to a minimum during this stage. During the decline period none of the promotional tools have any significant effect on sales. Therefore, it is normal to withdraw all forms of promotions. This strategy can reduce expenses and decrease the price of the product to attract the price sensitive buyers. When this strategy does not work the service firm is forced to fully abandon the service product.

New Product Development Process

New product development is a time consuming and painful process. A new product has to pass through an eight stage process of idea generation, idea screening, concept development and testing, marketing strategy development, business analysis, product development and testing, test marketing and commercialization.

1. Idea Generation

New product development process begins with generation of product ideas. In order to develop a successful new product an organization needs to develop several product ideas. The idea generation is a systematic process. An organization creates product ideas according to its product development objectives – whether to develop innovative products or modified products or imitated products.

Sources of product ideas: An organization may receive product ideas from several sources, such as company executives, customers, competitors, channel members.

- **Executives:** Many organizations employ scientists and engineers to undertake continuous research and development activities for generation of new product ideas. Therefore, the research and development department is a major source of new product ideas. Ideas may also come from production and marketing executives. Many successful companies like Toyota and Kodak encourage and reward employees for submitting workable product ideas.
- **Customers:** Customers are one of the major sources of new product ideas. An organization can receive new product ideas by observing how customers use the product and carefully listening to their complaints and suggestions. Formal surveys can also be conducted to learn about customers' need, wants and preferences. Customers also give new ideas for product modification when they are not fully satisfied with the current product.
- **Competitors:** When an organization wants to develop a me-too product they may receive product ideas from competitors' products. Most imitative products are based on competitors' products in terms of raw materials, technology and production process.
- **Marketing intermediaries:** Marketing intermediaries, such as suppliers, distributors, retailers are also major sources of product ideas. These people work very close to the market and are more aware of buyers' needs, wants and preferences. They can pass on the information to the organization and also suggest ways for modifying products to meet the market's needs more accurately.
- **Other sources of ideas:** Trade journals and magazines, seminars, publications of government research agencies and universities, individual inventors, industrial consultants, market research agencies and advertising agencies also provide product ideas on which the organization can work.

Formal Techniques of idea generation: A number of creative techniques have been developed and used for idea generation. They include attribute listing, forced relationship, morphological analysis, need-problem identification and brainstorming.

- **Attribute listing:** Attribute listing involves recording all major attributes of an existing product (own or competitors') and then modifying and improving each attribute to arrive at a new product concept. This method is suitable for developing modified and imitative products.
- **Forced relationships:** Under this method, several objects are considered in relation to a product that meets the special requirement of a specific customer group. For

example, in order to develop a business executive's working desk the idea generator may consider placing several objects on the desk, such as a computer, a fax machine, a television monitor, a clock, and book cases and so on.

- **Morphological analysis:** This method involves a detailed structural analysis of the various dimensions of a need or a problem, and finding a better way to meet the need or to solve the problem. For example, if the problem is to develop a pollution free car the important dimensions could be source of power (electric battery, cooking gas or solar panels), seating capacity (two, three or four people), the speed, parking convenience and so forth. These important dimensions are analyzed in combinations, such as power and speed, speed and seating capacity, seating capacity and convenience and so on. The analysis helps an organization to develop a product idea with optimum combinations of important dimensions.

- **Need-problem identification:** This method involves a need-problem identification exercise implemented at the buyer level. Market research techniques such as observation, interview or surveys are launched to identify buyers' needs and problems. Once the needs and problems are understood the organization may develop product ideas to meet the needs and solve buyers' problems.

- **Brainstorming:** Brainstorming[1] involves bringing together six to ten people in a closed room to generate product ideas to solve a specific problem. During a brainstorming session, participants are encouraged to contribute as many ideas as possible. Participants do not criticize any idea. The objective is to generate maximum number of ideas rather than the quality of the ideas. Participants are also encouraged to combine individual product ideas.

- **Synetics:** In synetics,[2] the participants in the brainstorming session are not told about the specific problem but are provided with a broad framework of the problem. This method avoids jumping into quick solutions. When participants are exhausted with the broad framework, the leader of the session gradually narrows down the discussion into the specific problem.

2. Idea Screening

Idea screening involves a preliminary elimination process in which a large number of product ideas are screened in terms of the organization's objectives, policies, technical feasibility, and financial viability. The total ideas are categorized into three groups: promising ideas, marginal ideas and reject ideas. The promising ideas are carried on for further testing and analysis while marginal ideas are stored for future use. The rejected ideas are dropped altogether.

Ideas are screened through a committee formed out of the functional managers of the organization. The committee motivates all employees of the organization to give their opinions on the product ideas. The committee meets regularly and evaluates the product ideas.

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[1]. The method was originally developed by Alex F. Osborn. See Osborn, *Applied Imagination*, 3rd. ed. Scribners, NY, 1963, p.286.

[2]. The method was developed by J. J. Gordon. See J. W. Lincoln, " Defining a Creativeness in People", *Source Book for Creative Thinking,* p. 274

3. Concept Development and Testing

During the screening process the organization will retain 4 to 5 product ideas for consumer level testing. This is popularly known as concept testing. The concept tests are based on the notion that the product idea is the most critical element in a product and consumers can easily react to product concepts without seeing the physical product itself.

The concept tests are conducted on the belief that people usually are attracted by the idea behind the product before they become interested in the physical product. Consumers want a beautiful face, cleaner hair or a convenient kitchen. Products are merely a vehicle for delivering the end benefits.

For concept tests, the organization needs to develop product concepts. A product concept is the product idea written on paper. The concept is based on the optimum product attributes. Several product concepts are prepared and pasted on concept boards- the size of 8.5" x 11". The product concept should unfailingly have the following two elements:

- Full but precise description of the product - how it works and its end benefits.
- Simple line drawings of how the product looks.

The product concepts need to undergo an internal screening process for technical feasibility and financial viability. The functional managers can participate in the preliminary concept screening process. Three to four concepts are then selected for consumer level testing.

Product concepts are generally tested in central market locations. The tests are conducted at several locations during different hours of the day. Intercept interview technique is used for testing the product concepts. The product concepts are shown to potential consumers one at a time. Rotation of the concept is necessary to avoid the presentation bias. The interview is focused on the following aspects:

- Buying intent followed by a open ended question on reason for the expression of the intent
- Frequency of use or purchase of the product
- Uniqueness of the concept
- The price-value reaction
- The problem solving attributes of the product
- The clarity of the concept

The concept tests provide a result in terms of buyers' reactions to the questions asked during the interview. The test helps to screen out product ideas that are not appreciated by the buyers.

4. Marketing Strategy Development

During the new product development process the firm has to develop preliminary marketing strategy for the successful product concepts. Such a marketing strategy includes the following aspects:

- The target market for the product
- Possible positioning for the product

- Preliminary estimate of sales, market share and profits from the product during the first few years
- The products' planned price, distribution and promotion program
- Long-term sales, profit and marketing strategy for the product

The preliminary marketing strategy formulation is highly essential for conducting a detailed business analysis in the next stage.

5. Business Analysis

Business analysis involves drawing a sketch of a product's compatibility with the market including specific estimates of sales, costs and profits. During this stage, the evaluator seeks answers to the following questions:

- Is the demand for the product strong and enduring enough to justify entering the market?
- How will the manufacture and marketing of the product affect the organization's total sales, costs and profits?
- What type of competitive and environmental reactions are possible and how these reactions affect the product's future sales, costs and profits?
- Does the organization have enough financial, manpower and technical resources to manufacture and market the product?
- If resource expansion becomes necessary how soon and in what ways can these be acquired?
- Does the product fit in the current product mix of the organization?

The evaluator gathers information from inside and outside the organization to find answers to the questions. The evaluator largely depends on secondary sources of information and some amount of marketing intelligence data to arrive at definite conclusions.

6. Product Development and Testing

Product development and tests are conducted on those products that show good future prospects during business analysis. In this stage, the organization needs to develop the physical versions of the product. The R & D or the engineering department prepares prototypes for laboratory and consumer level tests.

In product tests, the researcher tests the physical products in actual use conditions. The prototypes are based on the successful product concepts. The prototypes are manufactured in small number in the laboratory.

The prototypes usually undergo functional tests in the laboratory and field situations. The functional tests are conducted to know if the product performs safely and effectively. When the organization is satisfied with functional tests it takes the product for customer level tests.

Product tests are very important in the area of frequently purchased consumer products such as food, beauty aids, and household products. It is also gaining use in industrial products, office supplies and medical products.

> **PRODUCT TESTING METHODS**
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> **Testing standards:** The researcher conducts several product tests over a period of time before the most suitable and marketable product with optimum attributes desired by customers is identified. The product tests use several standards for measurement of the test results:
>
> Testing against a standard brand- own or competitors',
>
> Horse racing alternatives i.e., testing alternatives against one another and
>
> Testing against a historical standard of a successful product in the market.
>
> **Testing methods:** Product tests may be conducted through different methods.
>
> *Expert panel test:* In expert panel tests the organization forms an expert committee from among its own personnel. The panels of experts try the product and give their verdict. Although this method is the most economical, lack of involvement of consumers in the test makes it weak and unsuitable for consumer goods. This method is followed by restaurants and wine and liquor industries.
>
> *Central location testing:* This is another low cost method under which large numbers of pre-screened respondents are invited to a central location to consume or use the product. The respondents are interviewed individually on the product attributes and their perceived satisfaction levels. This test is feasible for those products on which the consumer can give clear reaction after only one use.
>
> *In-home test:* It is more expensive as it requires frequent visits to the respondents' residences. This method is more popular as it is more accurate and reliable. In-home tests are suitable for those products that need to be used for several days by the user or by the members of the family.

7. Test Marketing

Test marketing attempts to test on a limited scale the commercial viability of a new product and the marketing mix designed for the product in the context of a market segment. There are two purposes of test marketing:

- To provide a reasonable estimate of sales and market share for the product.
- To correct the marketing mix for the product.

In test marketing the product is sold in its complete form in selected areas through selected outlets. The sales are supported with local level promotions.

Test marketing variables: The results from the test market sites are periodically evaluated in terms of the following variables:

- *Trial rate:* the total number of consumers buying the product at least one time.
- *Repeat purchase rate:* the number of consumers buying the product for the second time.
- *Advertising effectiveness:* effectiveness of the advertisements and point of purchase displays.
- *Effectiveness of other marketing mix variables:* effectiveness of price, packaging, introductory offers and trade offers.
- *Reasons for not adopting the product and discontinuing usage by consumers*

Types of test marketing: Test marketing may be conducted at a limited scale or a full scale.

Limited test marketing: Limited test marketing can be conducted in several ways, such as sales wave tests, simulated sales tests and controlled test marketing.

- **Sales wave tests**: In sales wave tests, a limited number of potential consumers are presented with free samples of the product. After some days, these consumers are offered the product at slightly reduced prices. During the test period, the product is re-offered to the same consumer groups as many as three to four times (in sales waves) at different prices supported by different promotional tools. The researcher measures the consumer responses during the sales wave periods.

- **Simulated sales tests:** Simulated sales tests or purchase laboratory tests are implemented in a controlled situation in which a group of pre-screened potential consumers is gathered in a room (laboratory) in a central market area and exposed to a number of control and test advertisements in between interesting television programs. After the exposure to the advertisements, they are given a small sum of money and asked to visit a particular store and purchase anything they like with the money. If they do not feel like buying anything they are also allowed to keep the money.

  In this test, the researcher records the number of consumers who buy the test item, who buy other competing brands and who do not buy anything and keep the money. The triers and non-triers are interviewed to understand the reasons for buying and not buying. Simulated sales tests are suitable for test marketing of low priced packaged consumer products.

- **Controlled test marketing:** Controlled test marketing or mini-test marketing is executed through selected retail stores in a small market area. The product is launched only in the selected stores. The display of the product, the point of purchase promotion materials and the price is controlled by the researcher. The research team constantly observes and monitors the sales. The triers are later contacted and interviewed to collect important feed back on the product and the marketing mix.

Full scale test marketing: Full scale test marketing is a *"dress rehearsal"* of the commercial launching of the product. Under this method, the product is launched in two to three cosmopolitan cities supported by full scale promotion in the national media. The product is sold in these cities for a specified time period, usually from one to three months. The sales in these cities are regularly monitored. The researcher measures the major variables of test marketing research. Full scale test marketing is very expensive and involves risk of quick competitive reactions. Many organizations avoid full scale test marketing due to its high cost and risk factors.

8. Commercialization
Commercialization, the last step in the new product development stage, involves commercial launching of the product in the target markets. Commercial launching of the product is based on the test marketing results. By this time the organization has a full fledged marketing plan and program for the product.

Commercialization involves major decisions relating to timing, place, market segments and marketing strategy for launching the product.

- **Timing decision:** During commercialization, a timing decision is very critical. Many products fail or are forced to undergo longer introduction period due to wrong timing of commercial launching. In Nepal, the best timing for commercial launching of consumer products is during the festival months in autumn. During these months, consumers have better purchasing power due to festival bonuses and are generally spending liberally.

  Timing decision may be made in relation to a competitor planning to launch a similar product. The organization may launch its product ahead of the competitor and reap the benefits of first entry advantages, such as market skimming and industry leadership. It may opt for a parallel entry so that the cost of educating the consumer about the product's use is partly paid by the competitor. It may also choose a late entry to totally avoid consumer education costs and some of the launching risks.

- **Place decision:** In terms of place decision, the organization has to decide the geographical area for the product's commercial launch. Normally, organizations launch the product in a large market and move into smaller markets in later stages. Kathmandu is a popular launching city for many consumer products. Some organizations are also found to launch their products in Pokhara, as an alternative.

- **Market segment decision:** An organization needs to decide whether to go for single segment or multi-segment launching. Most commercial launching is targeted at the early adopters of a market segment who are opinion leaders in a society and also exhibit some risk taking behavior.

- **Launching strategy decision:** Most organizations adopt a separate strategy for commercial launching of a new product. An action plan is prepared to smoothly guide the launch and take quick actions if anything goes wrong. Commercial launching is mostly ceremonial and the organization should be able to get maximum publicity in the media. Consumers are mentally prepared and made waiting for the commercial launching through pre-launching advertisements built over the suspense themes.

SERVICE DIFFERENTIATION AND POSITIONING STRATEGY

SERVICE DIFFERENTIATION

Differentiation factors are competitive advantages a firm is able to exercise in a market in relation to its competitors. Differentiation strategy creates values for customers for which the customers are willing to pay. Successful differentiation strategies have three characteristics:

1. **Generate Customer Value:** The strategy must add value for the customer. The differentiation strategy should be designed from the customer's perspective rather than the firm's perspective. Market research plays important role in understanding the customers' perspectives.

2. **Provide Perceived Value:** The added value must be communicated to the customers and they should effectively perceive it. Creating brand value is the most effective method for communicating the differentiating features of a service or a company.

3. **Sustainable:** The differentiation factors projected by the firm should not be easy to copy by the competitors. The synergy and the preemptive move generate strong sustainability of the differentiation strategy.

Common Differentiation Factors: Differentiation strategy is targeted at creating superior values for the customers. Superior values can be created through differentiation strategy implemented over the product, services, personnel, and image.

1. **Service Differentiation:** Service differentiation is created in terms of the features and performance of the service.
2. **Process Differentiation:** Process differentiation is based on the method of delivery of the services.
3. **Personnel Differentiation:** Personnel differentiation is implemented through the quality of the personnel who are involved in sales of services. Mainly expertise, experience, responsiveness, and courteousness quality of the personnel are used for differentiation.
4. **Physical evidences differentiation:** Physical evidences such as design and décor of the service outlets, furnishings, color, and printed materials provide important service differentiation.
5. **Image Differentiation:** Image differentiation involves projecting higher images of the service brand and the company. The differentiation images generally used include high quality, modern technology, industry leadership, and social responsiveness.

Approaches to Differentiation
There are two major approaches for developing sustainable differentiation strategy: the quality option approach and building strong brands.

The Quality Option Approach: The quality option approach is one of the strong and sustainable differentiation strategies. This approach focuses on developing a reputation for good quality and promise to deliver superior quality products or services to customers. Under this approach, the firm should project its service as of premium value and associate it with enhanced customer benefits, premium price, and ego-related values. Quality perception of a service is dynamic and is liable to change due to competitors' actions, introduction of superior technology, change in customers' taste and preferences, and many other market forces. This approach is implemented with two major focuses:

1. **Total Quality Management:** The TQM calls for quality-focused management systems where the whole service process, people and systems within the firm have one objective – produce and deliver superior quality services to the customers.

2. **The Customer Focus:** It requires the grooming of an organization culture and programs directed at developing long-term and sustainable relationship with the customers. The top management should have personal contact with the customers; a

system where employee performance are to be judged by creating and retaining satisfied customers; and developing an in-depth understanding of customers' motivations, choice and satisfaction.

Building Strong Brand Approach: This approach to differentiation focuses on building service brand equity. Brand equity generates value to customers and provides the firm a space to adopt premium pricing and develop enhanced brand loyalty. The brand equity is based on four related aspects:

1. **Brand Awareness:** Familiarity and recall value of a brand name is an indicator of brand awareness. This is a strategic asset for the firm in a competitive market where it provides a sustainable competitive difference.

2. **Brand Associations:** Association of the brand name with a competitive advantage factor is an enduring asset to a firm. The brand name can be linked to the firm's other businesses. Service attributes and customer-benefits are the two commonly associated factors that can be developed as brand equity.

3. **Perceived Quality:** Customers' perception of the brand in terms of its quality supported by its attributes, benefits, and utility is a major factor that contributes to the brand equity.

4. **Brand Loyalty:** The most enduring and sustainable asset of a firm is brand loyalty. Brand loyalty is the resistance to brand switching by customers. Brand loyalty reduces marketing costs, presents high entry barriers to competitors, enhances brand image, provides for launching related products under the same brand name, and provides ample time to respond to competitors' attacking moves.

SERVICE POSITIONING STRATEGY

Positioning refers to the strategic decisions and actions intended to create and maintain the firm's service concept in customer's mind. In positioning the firm selects some of the key differentiation factors on which it has competitive advantage and establishes the image so that customers view the service as different. In positioning, the projected image is crucial and what the firm does to the mind of customer is more important than what the firm does to the service itself.

Positioning is finding the various brand images in the customers' mind, building the brand position on a proper desired image, and implanting that image in customers' mind with the help of marketing strategies. The selected image should be unique enough to differentiate the firm's brand with that of competitors.

Types of Positioning

Product positioning is mainly based on product attributes, benefits, and images. In specific products, positioning can also be based on use occasions, users, competitors, and product class.

- **Attribute positioning:** Attribute positioning is the most basic positioning. It is based on service features – what the service has?
- **Benefit positioning:** It is a more advanced form of positioning that is based on end-benefits of the service such as beauty, health, or security.
- **Image positioning:** This is the highest form of positioning that is based on the company image, brand image, strategic alliances, technology, etc.
- **Use occasion positioning:** This positioning is based on use of the product on a particular occasion or for a particular purpose. For example the house-painting service during festivals.
- **User positioning:** This positioning is based on 'the most suitable" for a target group of customers such as for housewives, professional, sportsperson etc.
- **Competitive positioning:** This positioning presents the firm's brand as better or superior to competitors' brands.

Implementation of the Positioning Strategy

Positioning refers to the firm's aspirations as how the market perceives its product or services relative to competitors' services. It guides most of the strategic initiatives and communication strategy of the firm. Therefore, it is very important for a firm to have the correct positioning strategy. A positioning strategy must have the following characteristics:

1. **Strategic:** Positioning should be strategic not tactical. It should be guided by a desire to have long-term advantage over the competitors and their services.
2. **Under the Control of the Firm:** The firm should have full control on the position. It should not be left in the hand of customers and competitors.
3. **Different from Competitors:** The positioning should amply and critically differentiate the firm and its service from the competitors and their services.
4. **Meaningful to Customers:** The strategic position should be able to create important value to the customers and should reflect to their key motivations.

Process of Implementing Product Positioning
Positioning is implemented in a six stage process:
    1. Identification of the target customers
    2. Identification of the main competitors
    3. Identification of the points of differences and points of parity
    4. Defining and communicating the competitive frame of reference
    5. Choosing and establishing POP and POD.
    6. Updating positioning over time

1. **Identification of Target Market (Customer Groups):** Identification of target markets is achieved through the tool of market segmentation. Market segmentation is the process of dividing the total market into smaller market segments that are homogeneous in terms of their demographic, psychographic, or behavioral characteristics and product needs.

2. **Identification of Competition:** Competition is a major environment variable in marketing. The organization to be successful in the market should be able to deliver

greater customer value and satisfaction than its competitors. In evaluation of the competitive environment, the organization should determine the type and level of competition in the market.

3. **Identification of Points of Differences and Parity:** The identification of the target customer and nature of competition in the target market provides a foundation for identification of positioning alternatives. The firm should now identify the points of differences (POD) and points of parity (POP) between the firm's brand and other competitive brands sold in the target market.

4. **Defining and Communicating the Competitive Frame of Reference:** As an initial step in defining and communicating the competitive frame of reference the firm should determine the category membership. The category membership indicates the services with which the brand competes. The brand will loose focus (weak positioning) if the firm chooses to compete with a variety of service categories. Consumers may establish a brand in a category based on its attributes, benefits, and associations.

5. **Choosing and Establishing POP and POD:** POP is not a very strong positioning tool. POD on the other hand is a very effective tool for finding unique brand positions. In selecting the POD factors the service firm must consider three key desirability criteria: relevance, distinctiveness, and believability.
   ➢ The target customers must find the POD as *personally relevant and important*.
   ➢ The target customers must find the POD to be *distinctive and superior*.
   ➢ The target customers must *believe* on the POD communicated.

Apart form the desirability criteria; the service firm must also consider the deliverability criteria. Deliverability criteria operate at the firm's end and reflect on the firm's resources and capabilities. There are also three deliverability criteria: feasibility, communicability, and sustainability.
   ➢ The service must be able to *perform* at the level communicated to the target customers. The firm must be able to afford, use resources, and have enough time to create the POD.
   ➢ The firm with the current communication mix should be able to *effectively communicate* the POD to the target audience.
   ➢ The firm should be able to *sustain the POD over time*. To be sustainable, the positioning should be preemptive, defensible, and difficult to attack.

6. **Updating Positioning over Time (Repositioning)**
Competitive forces and technological changes often force a firm to shift the brand position in a target market. Therefore, brand positions need to be updated over time as the previously occupied positions become overcrowded, attacked vigorously, or becomes irrelevant to consumers.

PRICING ISSUES FOR SERVICES

Pricing is the act of determining the exchange value between the purchasing power and utility or satisfaction acquired by an individual, group or an organization through the purchase of goods, services, ideas, rights etc.

Price is one of the critical variables in marketing of both commercial and non-commercial (social) services. Price is the only revenue driver, while other elements of the marketing mix are cost-drivers. Price is also the most important tactical tool used to attract new customers and induce existing customers to buy more of the service. Hotels, telephone companies, and cinemas use price to attract customers in off-season and off-hours. Some service providers, such as the budget airlines have used price as the strategic tool in capturing and retaining their market share.

Why is Service Pricing Unique?
The pricing decision of service products is different from pricing of products mainly due to the following three factors:
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1. **Customer knowledge of price:** Customers do not and cannot determine the exact price of a service in terms of the value he/she receives from the service provider. Some customers may use a reference point to determine the right price for a service. The reference point may be a price paid for a good service or a price paid in the past for the same type of service. Low knowledge of service price results due to the following factors:

   Heterogeneity of service: The service standard of one service provider is significantly different from that of another service provider. Moreover, service providers use a variety of combinations in their service offers. This makes a correct estimate of service price very difficult.

   Reluctance to quote price: Service providers are also found to be reluctant to quote their price in advance. For example, most legal services use percentage of compensation received by their clients if they win a court case.

   Variation in customers' needs: Service providers also face a problem in advance pricing because their customers' needs are different and they have to use permutations and combinations to arrive at the price based on the combination of service.

   Getting service price information is difficult: Customers also face problem in getting price information for service as many service providers do not display their price. Some service providers tell about the base price for basic service but do not disclose how the price changes when customers demand addition and subtraction from the basic service.

2. **Involvement of non-monetary costs:** Service seekers pay a variety of non-monetary costs while buying a service. These costs include time costs, search costs, convenience costs, and psychological costs.

   Time costs: Most services are delivered in presence of the customer. For instance, if a patient visits a medical doctor for a regular check-up, the doctor may spend only 15 minutes with the patient; but the patient may have to wait for one hour to see the doctor. The waiting time to get the service is a major cost for a customer.

Search costs: This cost results mainly due to the effort a customer puts in searching and evaluating different services. In case of buying physical goods the search costs are low since buyers can use brand names for determining choice. While buying services customers know about the quality only during the service experience.

Convenience costs: Customers need to travel to receive many of the services. Moreover, many service hours are different from customers' convenience hours. This results in higher costs as customers may have to tradeoff their economic time to receive the service.

Psychological costs: This cost is very painful for customers if they are dissatisfied with a particular service. Customers cannot return the service in case if they don't like it. Very often, they don't receive the compensation for their dissatisfaction. For example, if a customer cannot receive money due to ATM machine problem and face an embarrassing situation the concerned bank may express only regret if it receives complaints.

3. **Indicator of service quality:** The third important factor in service pricing is the importance of price in determining the service quality. Price sets customers' expectation of the service quality and customers also use this indicator to determine the quality of the service delivered. In physical goods marketers can use a variety of tools to influence the quality perception of customers, but in service products price is the key variable, while people, process, and physical evidences are minor variables.

APPROACHES TO SERVICE PRICING

Pricing involves many activities performed within an organization to determine the exchange value, such as setting the base price, determining discounts and commissions, and formulating pricing objectives, policies and strategies. Pricing is one of the most secretly performed activities in a business organization. An organization's product, distribution and promotion strategies are more or less obvious to a careful observer, but it is very difficult to find out how an entrepreneur arrives at his list price.

SELECTION OF PRICING OBJECTIVES

The pricing objective reflects the overall goal of the organization. *It describes what an organization wants to achieve through pricing.* The selected pricing objective affects marketing decisions in the areas of product, distribution and promotion. Pricing objectives also determine the selection of pricing methods and formulation of pricing policies and strategies. An organization may set its pricing objective in terms of profit and sales.

Profit oriented objectives: Profit oriented objectives of pricing can be set in terms of profit maximization and return on investment.

1. **Profit maximization:** Profit maximization is a very popular pricing objective. Profit maximization in the short-run may project a bad image for an organization equating it with profiteering, high prices and monopoly. Practiced over the long-run, profit maximization is beneficial to the organization and the society as whole. Profit maximization leads to the healthy growth of efficient organizations and punishment to

inefficient organizations. Since profit maximization poses operational difficulty in terms of measurement, many organizations prefer to set profit target goals.

2. **Return on investment:** Organizations make heavy investments to establish and start their service business. They usually manage pricing in order to achieve a specified return on investments in research, development, manufacturing and commercialization of the service product. A target return objective enables the organization to establish the level of profit it requires to secure a satisfactory return on investment.

Sales oriented objectives: Sales oriented pricing objectives are focused on increasing the market share and sales volume.

1. **Expand market share:** Expanding the current market share is a popular pricing objective for many service organizations. Some organizations adopt the passive objective of market share defense in a highly competitive market. Many other organizations adopt more active objective of market share expansion. Expansion of market share is achieved through high promotion under a low price profile.

2. **Increase sales volume:** Pricing objective may also be determined in terms of increasing current sales volume. Organizations adopting this objective believe that higher sales volume will lead to lower unit costs and higher long-run profits. In a price sensitive market, an organization may achieve healthy growth by pricing its service at the lowest possible point and achieve profits through the sales volume.

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SELECTION OF PRICING METHOD

After selecting the pricing objective, the firm can select the appropriate methods of pricing. Pricing methods are of three types: *cost oriented methods, customer value (demand) oriented methods and market (competition) oriented methods.*

Cost Oriented Methods

Cost oriented pricing methods are primarily based on the notion that the price should cover all types of costs and be able to give the organization a fair amount of profit. Cost oriented pricing methods include cost-plus or markup pricing, target return on investment pricing and target profit pricing.

1. Cost-plus or mark-up pricing: This is the simplest method of pricing which involves a calculation of the fixed and variable costs per unit and adding the desired profit margin on the total cost. For example, an organization has Rs. 10,000 as direct cost of manufacturing 1000 units of a product and Rs. 5,000 as fixed expenses. If the organization wishes a profit or mark-up of Rs. 5 per unit, it arrives at the unit price of Rs. 20.

2. Target return on investment pricing: This pricing method is popular among service organizations that need to recover a fixed target return (profit) on their investment from the price. Under this method, the desired return on investment is added to the total cost to arrive at the price. For example, a service firm has invested Rs. 1, 00,000 in machinery and wants to get 10 percent annual return on the investment by serving 1000 customers and it has total fixed costs of Rs. 50,000 and variable cost per unit of service at Rs. 30, it will arrive at the price through a simple calculation as shown in the following illustration:

Total investment	= Rs. 1, 00,000

Total fixed cost	= Rs.	50,000
ROI: 10 % on investment	= Rs.	10,000
Fixed cost + ROI	= Rs.	60,000
Per unit FC+ROI = 60,000	= Rs.	6
Variable cost per unit of service	= Rs.	30
Price	= Rs.	90

3. Target profit or break-even pricing: This method uses the break even analysis (BEA) to evaluate the revenue and profit scenarios at several pricing alternatives. In BEA, the total cost is segregated into two groups: fixed and variable costs. The total fixed cost is assumed to remain unchanged over different scales of service production and the average variable cost is assumed to be constant per unit.

BEA analysis uses break-even points to determine revenue and profit from a service at a given price under certain cost structure. The break even point is the *no profit-no loss point*. If sales (revenue) increase beyond this point, the organization is able to make a profit.

The cost oriented methods fail to take into account the demand for the products at various prices. The demand is brought into the pricing picture through the sales estimates. When such sales estimates are integrated into the flexible BEA it provides better price setting scenario. Beside the FBEA the value based methods are also demand oriented as it takes buyers into consideration.

The break-even analysis is a very useful tool for pricing. Although it does not specifically guide the marketer to arrive at the base price, it can effectively provide an estimate of revenue and profit situation at various pricing alternatives. It also tells the marketer what quantity or volume of services it has to sell in order to break-even. An organization operating close to the break-even point can also use the analysis to design efforts to either increase sales or reduce costs to enter into a profitability situation. BEA is very useful for many public enterprises that usually operate close to the break-even point.

Value Oriented Methods

Value oriented pricing methods are based on customers' value perception rather than costs of the service. A large number of companies are adopting this form of pricing. There are two types of value oriented pricing methods: perceived value pricing and customer value pricing. Perceived value pricing is mainly used for a new services, whereas customer value pricing is generally used for an existing product.

Perceived value pricing: Perceived value pricing is gaining popularity for the pricing of service products. Under this method, the firm collects buyers' perception of value (price) of the service product and fixes the price around the average perceived value. Cost and demand are secondary factor in this method of pricing. The following diagram shows the difference in approaches in cost oriented and value oriented pricing methods.

Difference between Cost-based and Value-based Pricing
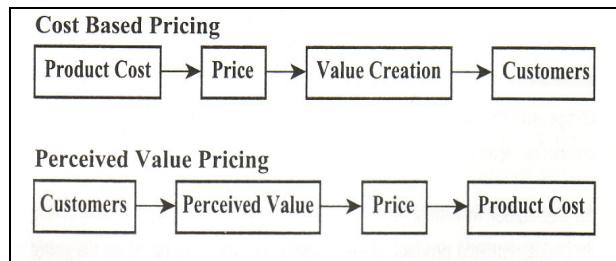
Under the cost oriented methods, the price setter first determines the cost of the service to arrive at a price for the service, and then decides how to create values for customers in terms of various images associated with the service. Under perceived value pricing, the price setter first determines the customers' perceived value for the service, and then formulates strategies to make the cost compatible with the price.

Organizations use non-price variables, such as process, people, and physical evidences. to collect the price perceptions from buyers. Price perceptions are collected from a large number of consumers at different places and at different points of time. Thus, perceived value pricing heavily depends on the market research techniques.

Customer value pricing: Under this method, an organization may charge a very low price for a high quality service to create special customer value for the service. The price charged may sometimes be below the costs. Such method of pricing is adopted by those organizations that have substantial width and depth in their service line or mix. They adopt customer value pricing on only a few services while most of the other services are sold at a premium price. They try to achieve higher sales of premium priced services by attracting customer groups through the high-value lower priced services.

Market-based Pricing Methods

The market oriented pricing methods are based on the competitors' prices. Under this approach the price setter does not consider costs and demand as major pricing factor. The price is changed only when the industry price level changes. An organization operating in a highly competitive market may price equal to the competitive level, slightly above the competitive level or slightly below the competitive level.

Going-rate pricing: Under going rate pricing, the organization simply bases its price at the prevailing market price. An organization selling an undifferentiated service (barber) may determine the price equal to competitive level.

Pricing above competition: If the organization has a service that can be differentiated to some extent, it may price slightly above the prevailing market price. If the service provider has a higher image or goodwill, it can afford to set the price above competitive level.

Pricing below competition: Pricing below competition is a popular pricing method adopted by organizations that operate in a highly competitive market. For example, in many of the domestic routes RNAC's fares are lower than other competitors. Organizations who price below competition believe that more buyers can be attracted by the lower prices. However, this involves some amount of risk as buyers may equate the lower price with lower quality. Therefore, a lower price does not always create higher customer value.

PRICE FACTORS IN SERVICES MARKETING

Price determination of service products is affected by several internal and external factors. Internal price factors are controllable while external factors are mostly independent. Internal factors that affect the pricing of a product are the pricing objectives, marketing mix, and the costs.

Pricing objectives: The selected pricing objective becomes a major guiding force for price determination. Pricing objective provides the direction for adopting pricing methods and formulating pricing policies and strategies. For instance, if a service organization has profit oriented objective it usually adopts a pricing method that allows full cost recovery or specific target return on investment. The organization may maintain a high price profile and practice price differentiation policies. On the other hand, if an organization has sales oriented objective, it may adopt the break-even or perceived value pricing method. The organization has to maintain a low price profile for market expansion or an increase in sales volume.

Marketing mix: The composition of the other elements of the marketing mix (service product, distribution, promotion, people, process, and physical evidences) affects the price determination for a product. The marketer has greater pricing freedom in case of a new service than in pricing an existing service. If the service has low differentiation (e.g. a barber's service) it is usually sold at competitive prices. The location of the service outlets, its atmospherics, people involved in the service delivery also determine the flexibility in service pricing. Price is also affected by how the service is promoted. If it is promoted as an economy related service, it may be sold at a low price, and if it promoted as a prestige related service, it is sold at a high price.

Costs: Costs provide the lower limit for setting the price of a service. The cost is a combination of different costs incurred during production and delivery of the service. It includes three types of costs – variable costs, fixed costs, and overheads. Variable costs are directly involved in producing the service outputs such as costs of materials, directly involved manpower costs, and energy costs. Fixed costs are the cost of service infrastructure, atmospherics, and local taxes. Overheads are management and administrative costs.

The independent price factors are outside the influence of the marketer and include market demand, prevailing market price, competition, external control, and social concerns.

Market demand: The market demand is a very strong factor for price determination. The market demand for the service sets the upper limit of the price. The price setter has to determine the sales volume at the expected prices and arrive at an estimated demand for the service at different prices.

Competitors' price: As costs set the lower limits and demand the upper limits, the actual price point is determined by prevailing price level in the target market. Most of the undifferentiated services are sold at the prevailing market prices. Even in case of the differentiated services, the price setter can no go far beyond the prevailing market price. If there are no close substitutes, there is more pricing freedom for the marketer.

External control: External control on the price level and legislation regarding price regulations are important variable in the pricing milieu. In Nepal, some professional associations (e.g. medical association) determine the price of professionals. The government controls the price of services of government controlled services.

Social concerns: Social concerns on prices are normally represented by the voices of consumer associations. Thus, in a market where these associations are working actively to protect consumers' interests, the marketer has to take into account their concerns and possible

reactions in price setting. The consumer associations in Nepal are very weak, politically motivated, and less concerned with the consumer welfare, and hence, marketers need not take them as a pricing variable.

PRICING STRATEGIES IN SERVICE MARKETING

Pricing strategies in service marketing must consider the delivery of value to the customer. However, pricing strategies need to consider what is meant by the value to the customer. Value may be associated with image, quality, and competition. Service pricing strategies are framed according to the value creation and delivery strategy of the service firm.

Image Value Based Pricing Strategy

When customers are concerned with the high image of the service price is not a major concern for them. They value the intrinsic attributes of a service and higher the service price higher is the value perception. Business executives and celebrities travel in first class in boutique airlines paying a very high fare and stay in five-star hotels just for the image value. Service firms adopt two major pricing strategies – prestige pricing and skimming pricing to create the image value in their services.

➢ **Prestige Pricing:** This pricing strategy offer services at a very high price to create a very high prestige related image of the service. Many restaurants, hotels, health clubs, and airlines offer luxury service and charge very high price. In prestige pricing demand increases as price goes up.

➢ **Skimming Pricing:** Many service organizations adopt overcharging strategy for their new service with the support of high level of promotional expenditures. This strategy is targeted at the market pioneers and early adopters as they are interested in being the first in consuming the new service. Service firms gradually lower the price to attract other categories of service customers.

Quality Value Based Pricing Strategy

When customers compare the price with the service quality service firms must match customers' quality expectations with service price. Service firms have two strategic pricing options for these customers – value pricing and segmentation pricing.

➢ **Value Pricing:** Value pricing strategy is focused on 'giving more for less'. This strategy is implemented by combining a bundle of services at a lower price. For example, many budget airlines offer their core service of on-time air service at a lower price. They achieve this by cutting down on the costs of allied services.

➢ **Segmentation Pricing:** Under this strategy, the service firm practices a price differential strategy by offering the same service at varying pricing to different categories of customers, at different places, at different points of time. This strategy is implemented on the assumption that different customers show different price elasticity. Discounted price for students, invalid person, and elderly people in airlines service is an example of the segmented price.

Competitive Value Based Pricing Strategy

When customers do not have precise price-quality perceptions service firms often try to organize the price information for the customers based on the offers of similar services in the market. Under such circumstances four strategies become relevant – price framing, price bundling, complementary pricing, and results-based pricing.

➢ **Price Framing:** Under this strategy the service firms provides reference points for customers to view the price in context of different individual service. It may also charge different prices for different combinations of services.

➢ **Price Bundling:** Service firms often bundle a service package and charge an overall price for the group of interrelated services. Customers often find the price for the full package of service more convenient to perceive and pay than perceiving individualized prices for each component of the service.

➢ **Complementary Pricing:** Under this strategy the service firm may compensate the loss from a low price service component by charging a high price on another service component. This strategy is popularly known as captive pricing. Some firms follow a two-part pricing such as charging a fixed fee for the main service and variable fee for additional service. This type of pricing is popular in health clubs. Some service firms use the price leadership by undercharging in a service component to draw customers to their service outlets and set prices of other services at a higher level.

➢ **Results-based Pricing:** Some service firms do not declare their price in advance. They base their price on the delivery of the expected results. This form of pricing is practiced in the advertisement world where an advertising agency may price its service at a percentage of increase in sales. Lawyers often determine their price on the percentage of benefit received by the client through the law suit. Movie stars also charge according to the box-office success of a movie. Money-back guarantee pricing is also gaining popularity whereby customers may get a full refund if they are dissatisfied with the service.

PLACE (DISTRIBUTION) STRATEGIES IN SERVICES

Marketing firms often treat their distribution system as an asset. They often make large investments to build a distribution network and make regular expenses to maintain and enhance their efficiency. Distribution plays very important role in marketing in the areas of delivering satisfaction; value addition on the service product; providing production means and channels of communication; and employment to large number of people directly and indirectly involved in distribution of services.

Distribution is often termed as *"the other half of marketing"* indicating towards the high weight it receives in the marketing program of an organization. Distribution is a major element in marketing of goods; although its role in marketing of service is not so prominent. In service marketing the key distribution issues revolve around location of service outlets, and direct marketing.

LOCATION OF SERVICE OUTLETS

The key distribution issue in service marketing is the location of the service outlets mainly because accessibility of the service for the clients and potential customers and availability of the service to the service seekers without the involvement of high time and energy costs is very important. The location of the service outlets is mainly a trade-off between the interests of the service firm and the customers. Customers would like the service to be located to their homes or place of work for their convenience while service firms prefer centralized locations to cut down costs through economies of scale. Several factors determine the location of service outlets.

1. **Inseparability:** The degree of inseparability of the service provider and the service customer in the service production and delivery is different in high and low contact services. In high contact services the outlets need to be located near to the customers, while in low contact services such as credit or debit cards service outlets can be centrally located. In case if a service can be delivered through telephone (telemarketing) or internet (on-line learning) the service outlet can be located anywhere.

2. **Equipment-based services:** The issue of service outlet location is also affected by the use of equipment in the service delivery. If a service needs the use of heavy equipment such as CT Scan or MRI it requires central location as the investments becomes very high. In low equipment based services such as baby-sitting and massage service the service provider may visit customer's residence to provide the service.

3. **Customers' willingness to travel:** Another factor important in service location could be the customers' ease and convenience to travel a distance to buy the service. Many of the services are specialty products and consumers show a high degree of willingness to receive a service from a valued service provider in the location determined by the service firm.

4. **Fixed geographical locations:** Many services need to be consumed at the fixed geographical locations as they can not be physically moved. Tourist services to destinations, hot-water springs, bungee-jumping and many other entertainment services can be provided only in their fixed locations.

DIRECT MARKETING VS. USE OF INTERMEDIARIES

Direct marketing involves selling directly to consumers bypassing all forms of marketing intermediaries. Services are mostly marketed through the direct marketing channels. The inseparable nature of the service marketing requires the presence of the service provider and the customer during the production and delivery of many types of services. Thus, direct marketing is the common method of distribution in service marketing. Nevertheless, many services have emerged that uses the intermediaries in distribution. Two service marketers are involved when service products are sold through intermediaries – the service principal and the service deliverers. The service principal creates the service idea, determines its quality level, and sets the price; the service deliverer or the intermediary interacts with the customer and delivers the service according to the set standards.

Service intermediaries are prevalent in the case of franchised services. In such an arrangement the franchisee assumes the role of the service intermediary and delivers the service promise set by the service principal. Such franchised services are popular in case of food chains and restaurants (e.g., ND's in Nepal), insurance business, car and motorcycle serving. Some service firms also use agents and brokers to act on their behalf to locate service customers and negotiate a service deal.

The major factors that influences the choice between direct marketing and indirect marketing are company resources and objectives, type of service, geographical coverage and foreign operations, technical skill required, and customer preferences.

> **Company policy:** Often company policy and available resources determine the choice between direct marketing and use of intermediaries in service marketing. If a service firm wants a strict control on the service quality it will choose to adopt direct marketing since intermediaries may make compromises on the quality of the service delivered. When resources become a constraint for growth some service firms may franchise its operations to local service firms.

> **Type of service:** The variability factor in service quality is a major factor in distribution of services. People-based services have more variations and thus are mostly delivered through the direct marketing channels while equipment-based services (e.g. dry cleaning) can be standardized and may be distributed through intermediaries.

> **Geographical coverage:** The geographical coverage of the service firm determines the distribution strategy. Local service firms can adopt direct distribution while national and international service firms may use intermediaries. Most service firms operating in foreign markets franchise their service operations to local firms.

> **Special skill required:** When a service is based on the special skill of a person (surgeon) it can not be sold indirectly. Although technology has made remote surgery possible, still patients prefer direct surgery.

> **Customer preferences:** Different customers prefer different distribution systems according to their buying behavior. Some customers are happy to deal with service intermediaries, while others want personalized service from the service provider. Thus, the service firm has to take into account the customer preference in designing its distribution strategy

PROMOTION OF SERVICE PRODUCTS

Promotion is one of the key elements in the marketing mix. Marketers match the service to the specific needs and want of the buyers. They put price on the service and distribute the product in the target markets. However, marketers may not achieve their objective of profit unless buyers are effectively communicated about the service, its price and availability. Thus, promotion performs the major role of communicating to the buyers.

Marketing communication may be direct as well as indirect. The direct communication moves directly from the source to the target audience. Sales-talk, advertisements, and product instructions are examples of direct communication. In service marketing both direct as well as indirect communications are very important. Sometimes marketing communications may be executed indirectly through channel members and opinion leaders. A firm that adopts a

'pull strategy' often communicates directly to the consumers. A firm that adopts a 'push strategy' arranges the flow of communication through the channel system. Marketers often target their communication to opinion leaders in the society. The opinion leaders in turn communicate the message to the larger audience in the social systems.

COMMUNICATION MIX IN SERVICES

The promotion mix is a combination of communication tools such as personal selling, advertising, sales promotion, public relations, and direct marketing. The marketing executive has to decide what combination of the available communication tools it intends to use to promote the service product to the target market.

Personal Selling: Personal selling consists of executing sales through salespersons. It involves a two-way communication process between the seller and the potential buyer. It is a very effective form of communication, particularly when the buyer needs full explanation of the attributes, utilities and other associated benefits of the service.

In service marketing the body language plays very important role in communication. This is more so because service provider and service seeker interact and communicate directly. The service provider needs to correctly understand the body language of the customer. Some of the communications based on the body language are presented in the following box:

Body Language and Communication

Body Language	**Communications**
Facial Expression	
• Smile	Happiness, Friendliness
• Raised eyebrows	Surprise, Astonishment
• Narrowed eyes and Pursed lips	Anger
• Clamped lips	Uncertainty, Hesitancy
Eye Contact	
• Glancing	Interest
• Steady	Active listening
Hand Movement	
• Firm handshake	Friendliness, Strong character
• Clenched Fist	Anger
• Finger on the nose	Inquisitiveness
• Hand on the chin	Thinking
Gestures	
• Folded Arms	Not open to change, ready to speak
• Arms at side	Relaxed, Open to suggestion
• Folded arms on the chest	Protective, Defensive
Body Posture	
• Shrugging shoulder	Indifference
• Sitting on the edge of the chair	Great interest
• Slouching on the chair	Tiredness, Lack of interest

Advertising: Advertising is the impersonal method of communicating messages to prospective buyers. It involves transmitting standard messages to a large number of potential receivers. Advertising uses a number of vehicles such as print media (newspapers, magazines, journals, and pamphlets), visual media (posters, hoarding, and mobiles), audio media (radio and other public broadcasting system) and audio visual media (television, video, and celluloid films)

Promotion Mix
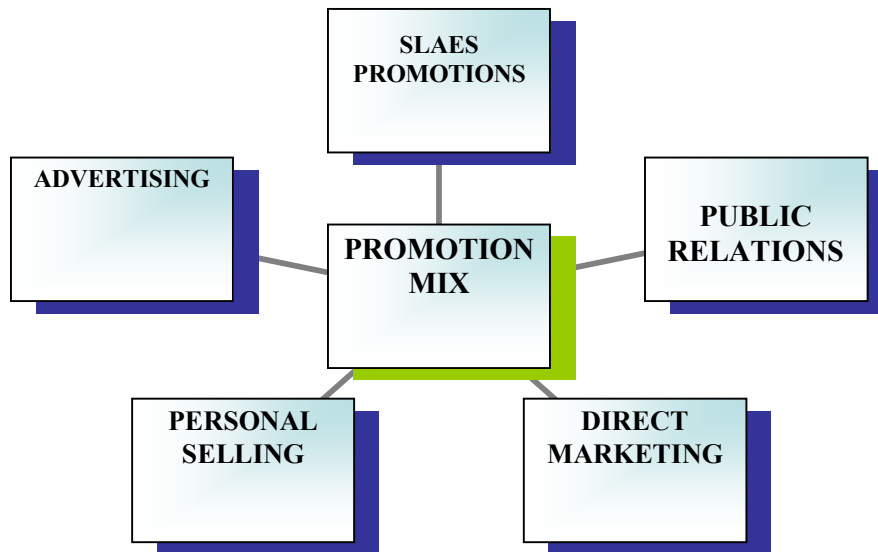
Sales Promotion: Sales promotion refers to short-term promotional activities of non-recurrent nature. The main purpose of sales promotion is to stimulate consumer purchasing. Consumer promotion methods include sample, premiums, contests, demonstrations, coupons, special displays and temporary price reductions.

Public Relations: Public relations are a broad set of communication activities used to create and maintain favorable relationships with customers, government officials, press and society. It is achieved through effective personal relationships, presentation of a good corporate image, social responsiveness and charity work. Public relations also include publicity. Publicity is communication in news story form about the organization and its product that is transmitted through the mass media. It is achieved through the publication of a feature article, a captioned photograph and press conferences.

Direct Marketing: Direct marketing involves selling directly to consumers bypassing all forms of marketing intermediaries. The traditional methods of direct marketing are door-to-door selling, catalog marketing, mail-order marketing, and telephone-marketing. Modern methods of direct marketing include television marketing, online marketing, e-marketing, and database marketing.

Organizations compete with each other to get buyers' attention to their communications. Buyers are exposed to hundreds of messages every day. Many of these are not even noticed

by buyers. Some of them are noticed and perceived by buyers. Many of them are not remembered after five minutes. Only a few communications are noticed, perceived and remembered for a long time. Marketers need to design more effective and interesting communication.

Promotional efforts are fully dependent on the communication system. Marketers need to be careful in every stage of the communication design and transmission process.

The major decision in promotion of service is to design their promotion mix, allocate resources to design and develop effective communication, and monitor and measure the effect of its promotion strategy in the marketplace.

MANAGING PEOPLE IN SERVICE ORGANIZATIONS

People are considered the fifth P of service marketing. People include the internal people constituting the service staff and the external people constituting the customers.
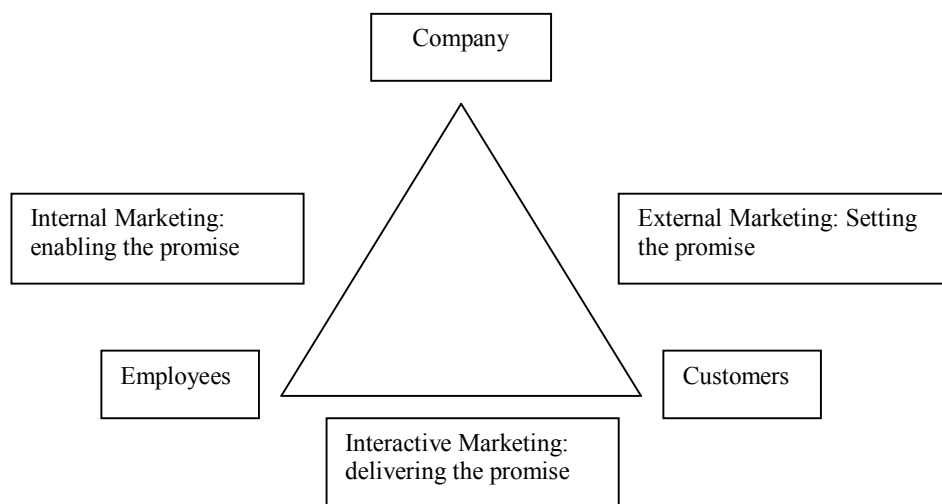
Managing Internal and External People

The major issue concerning management of internal people revolves around human resource management including recruitment, selection, training, rewarding, motivating, building team and other related issues. Service firms also face the management of channel partners and suppliers through building effective networks for satisfying and productive service delivery.

Many service firms consider their employees as the brand (Singapore Airlines). Failure to deliver expected service mostly result from employee performance factors such as inappropriate recruitment, role conflict, poor employee-technology fit, low motivation and morale, and lack of team work. Management of the internal people should take into account the service triangle model and the service – value- profit chain in service marketing.

Managing the Service Triangle
The company, customers (external people), and the employees (internal people) are the three parties in the service triangle. Service firms coordinate and integrate the interests of these three major parties for successful competitive advantage in the service market.

The company is the service firm that is guided by its long-term and short-term goals and priorities. The customers are at the receiving end. They have certain expectations of value and satisfaction from the services bought. The expected value and satisfaction to the customers are delivered through the service firm's employees. Thus, the priorities of these three parties could also be different. For instance, the company is interested on profit, growth, and sustainability. The employees' naturally expect a standard of living, recognition, and career growth. Customers expect value for their money and recognition from both the company and the employees.

The service firm needs to practice three types of marketing in the context of the service triangle – external marketing, internal marketing, and interactive marketing.

- ➢ **External marketing (External people):** External marketing mainly involves communicating with the target market. This involves setting the company's promise of value and satisfaction to the customers. The promise may be delivered through the promotion mix – advertising, personal selling, sales promotion, public relations, direct marketing. This external marketing sets the minimum expectations of the customers in terms of the attributes, end benefits and quality of the services. If the company fails to deliver the expected value and satisfaction it will rapidly lose its customers. In order to be competitive in the marketplace, the service firm has to effectively implement the internal marketing and interactive marketing.

- ➢ **Internal marketing:** Service marketing not only requires external marketing but also effective internal marketing. Internal marketing is targeted at enabling the promised service benefits to the customers. Internal marketing includes all those activities undertaken by an organization to train and motivate employees to serve the customers well. Service oriented organizations, such as hotels and airlines make huge investments in their human resources. They strongly believe that every rupee spent on their employees is a capital investment that will eventually be returned to the organization.

- ➢ **Interactive marketing:** Besides internal marketing, service organizations also need to practice interactive marketing in order to be able to deliver the service as per the promise. Interactive marketing describes the employees' talking skill while providing the services to the customers. Since most services are marketed directly, the quality of the service is dependent on the quality of the customer-service provider relationships. Customer satisfaction is fully determined by how the service provider interacts with the customers.

Thus, successful services marketing organizations must focus their attention on both their internal and external people.

Service Value-Profit Chain
In service marketing, internal as well as internal people are the critical variable as most services are provided through internal people to external people. Therefore, service firms need to make heavy investments in attracting qualified, experienced and responsive internal people to deliver higher service quality and satisfaction to the external people. There is a

service-profit chain in operation that links service organization's profits with employee and customer satisfaction. This service-profit chain consists of five links.

Service Value-Profit Chain
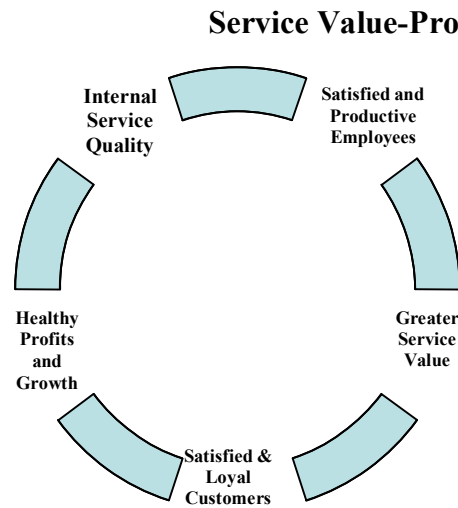
- ➢ **Internal service quality:** Internal service quality is achieved through a high emphasis on careful employee selection, intensive training, a high quality of work environment, and a strong support for the front-line staffs who directly deal with customers. These activities are expected to result in satisfied and productive employees.
- ➢ **Satisfied and productive employees:** Satisfied, motivated, loyal and hard working employees are able to create greater service values for the customers.
- ➢ **Greater service value:** More effective and efficient customer value creations normally result in the development of a large number of satisfied and loyal customers.
- ➢ **Satisfied and loyal customers:** When an organization develops large number of satisfied and loyal customers, it can achieve healthy profits and growth.
- ➢ **Healthy profits and growth:** When it has more profit it can invest more on its employees that result in higher service quality.

PHYSICAL EVIDENCE

Physical evidences, the 6th P of service marketing are the tangible elements of services. Physical evidences constitute of the servicescape and other tangibles. The servicescape is made up of physical facility that includes exterior design, signage, parking, landscape, and surrounding environment; and interior facility that includes interior design, equipment, signage, layout, air quality and temperature. The other tangibles include business cards, stationery, billing statements, reports, employees' dress, uniforms, brochures, web pages etc.

- ➢ **Essential Evidence:** The servicescape is the essential evidence that is essential for differentiation and competitive advantage. Service customers often judge service quality based on the servicescape. It also builds an infrastructure for the service delivery process. Restaurants use décor, furniture, crockery, cutlery, linen, lights etc. to give a feeling of difference to customers.

> **Peripheral Evidence:** The other tangibles are peripheral evidences that are mostly used in external communication. The peripheral evidences change hands. Airlines ticket, giveaway socks and gifts are examples of peripheral evidences. These evidences add value to the main service.

Role of Physical Evidence in Service Marketing

The physical evidence is used by service firms for four major purposes – build corporate image and identity, customer perceptions of the service quality, facilitating people and process, and socialization of internal and external customers.

1. **Corporate Image and Identity:** The physical evidences are like a package in marketing of goods that communicates the image of the organization to the target customers. They communicate the initial impression about the service organization and help form customers' expectations. The physical evidence combined with the other service mix elements builds the corporate image. The corporate image is the people's perceptions of the organization based on its service positioning, sponsorship programs, reputation, and customer and employee satisfaction and so on. Physical evidences add to the development of a favourable corporate image through the tangibles. In total, it provides an identity for the service firm that differentiates it form competitors.

2. **Perceived Service Quality:** Perceived service quality is a post-consumption experience of customers. Although customers mostly form their perception of service quality based on the level of satisfaction with the core service, the tangibles contribute immensely in enhancing the service quality perceptions. Customers visiting a restaurant will be mostly concerned with the quality and taste of food, but their experience can be enhanced with the décor and other tangible elements.

3. **Facilitation:** The tangibles facilitate people to implement a process for the service delivery. A good service outlet layout facilitates communication between employees, brings openness, reduces tensions, increases efficiency and contributes to the achievement of the organizational goal.

4. **Socialization:** The physical evidence provides an atmosphere for socialization between the employee and customers. It contributes to good interactions and relationships.

PROCESS

The process is the 7th P of service marketing. It is one of most important differentiation variable used in service marketing. It mainly deals with the service delivery systems which customers generally perceive as part of the core service itself. It is a tactical tool used to achieve the strategic goal of competitive advantage through service differentiation. The teaching pedagogy used in educational institutions, the loan processing and encashment of cheque in banks, and the order-taking and delivery of food in a restaurants are part of the process; but so strong is the process factor that service customers often use this as the choice

variable. The process is also the part of the service encounters and major determinant of customer satisfaction. The major four variables of the service quality – responsiveness, assurance, empathy, and tangibles – are integrated and designed in the service process systems.

What is processed?
The service process mainly involves processing of people, objects, and information. In most of the personalized services ranging from transportation, education to beauty treatments the people themselves are processed. In repairs and maintenance services the objects are processed. In case of consultancies ideas and information are processed.

Types of Service Processing
There are mainly four types of service processing.

1. **People processing: tangibles actions to people's bodies:** These include service processing in passenger transportation, hairdressing, dental work and so on. In this service processing the customer is physically present throughout the service delivery process.

2. **Possession processing: tangible actions to people's physical possessions:** These include freight transportation, repair and maintenance, office cleaning, dry-cleaning and so on.

3. **Mental stimulus processing: intangible actions to people's minds:** These include all types of entertainment services, sport events, cinemas, education and so on.

4. **Information Processing: intangible actions to people's intangible assets:** These include consulting, information on insurance and banks and many more.

TECHNOLOGY AND SERVICE PROCESSING
Technological advances have not only contributed to the introduction of a variety of new services, it has contributed immensely in improving the service processing. Examples could be in the areas of communications, on-line marketing, hotel and airline ticket reservations and many more. Technology also has added value to many service products, freed service staffs from many mundane tasks such as cleaning floors, and enhanced their overall productivity.

Use of technology in service marketing can be viewed from the perspective of the four types of service processing – people processing, possession processing, mental stimulus processing, and information processing.

People processing: In this processing, customer-involvement in the service delivery is very high; as a result, service firms should focus on method technology particularly in the front stage machinery, equipment, and power technology. This type of processing involves a high dose of human involvement. This limits the full use of technology in the whole process of service delivery. For example, an air transport service may use an aircraft based on technology that controls fuel consumption, noise and air pollution. However, success of the airlines depends on the quality of care, empathy, and responsiveness of the airline personnel.

Possession processing: In possession processing, the presence of the service customer is low, as a result the service firm can use technology in the whole process. The car wash and service, motorbike servicing, dry-cleaning and many such services are being fully automated with the support of technology.

Mental stimulus processing: In mental stimulus processing although customer presence is high, use of technology is also found to be high such as in theme parks and entertainment services. In many other services such as education (except online learning), sports etc., use of technology is limited to support equipment.

Information processing: Most of the information-based services today have fully used information-communication technology (ICT). Telecommunications, cellular mobiles, cable TV have facilitated the information processing services.

USE OF ATMOSPHERICS IN SERVICE PROCESS

Atmospherics mainly involve appealing to customers' sensory organs through the use of sight, sound, smell, and touch to create atmosphere in the service outlets.

The following provides examples of the use of atmospheric tools are used in the service delivery process of a food related outlet:

- ➢ Sight: Layout, lighting, color, and furnishings.
- ➢ Sound: Music, and background noise.
- ➢ Smell: Appetizing and pleasing smell.
- ➢ Touch: Comfort and temperature.

Banks, airlines, travel agencies, hotels, and restaurants give high emphasis on atmospherics to create moods, ambience, and working environment. Atmospherics also facilitate the service delivery process by enhancing customer-staff relationships.

Chapter IV

SERVICE MARKETING IN NEPAL

SERVICE MARKETING ENVIRONMENT IN NEPAL

Concept of Marketing Environment
Marketing environment consists of forces that directly or indirectly influence the organization's marketing activities. Marketing environment variables are dynamic. Every change in the marketing environment provides new business opportunities and threats and opportunities. In order to take advantage of the environmental dynamism marketing management should carefully monitor and analyze the changes in the environmental forces and capitalize on new trends and mega-trends emerging in the environment. In terms of the time dimension of the changes in the environment forces business opportunities arise in the form of fads, trends, and mega-trends.

> ➢ **Fad:** It is a very short-lived change in the marketing environment. The change appears and disappears within a period of two years. Consumers' taste of a type of music like rap, hippop, *dohari*, or remixes are fad. Similarly, the emergence and disappearance of Rs. 99 shops and pagers are results of fad. Fad provides business opportunities for a very short period of time. Strategic marketing does not recommend a firm to go after the fad.

> ➢ **Trend:** A trend is a direction or sequence of events that have some momentum and durability. The demands for self-service stores, compact disc players, digital watches, mini-skirts are trends. A trend is usually active for a period of two to seven years. Trends provide medium-term business opportunities. Firms that target on quick return on investment can go after the medium-term changes in the marketing environment.

> ➢ **Mega-trends:** Mega-trends are large social, economic, political and technological changes that are slow to form and are relatively stable for a period ranging between seven to fifteen years or more. For example, adoption of Western values in Asia could be a mega-trend. This trend may expand the Asian market for a variety of products and services including Western clothing, entertainment, foods and many other products and services. Mega-trends provide long-term investment opportunities.

Service Marketing Environment in Nepal
The major external forces affecting marketing activities in Nepal are its demography, economy, socio-culture, politics and law, technology, and its natural forces.

Demographic Environment
Demography is the scientific study of the structure and composition of population. The study of population structure and its changes is very important in service marketing mainly because population constitutes of the total consumers for every service. The 2001 census shows that Nepal's population has reached to 23.2 million. The population of the country grew by 25.5 percent in the decade of 1991-2001. The average annual growth in population in this decade has been 2.27 percent. The growth in population has been concentrated more on the plain

areas particularly the Terai, inner Terai, and urban centers. The rapid growth in population indicates a very high ratio of children to total population. The recent Living Standard Survey shows that children below 15 years of age account for about 40 percent of the total population.

The general improvement in health care has gradually increased the national average life expectancy at birth that has reached to about 60 years. This indicator has reached to 71 years in the urban areas. Currently, about 8 percent of the population is aged above 60 years. The ratio of aging population to total population is gradually increasing over the years. Nepal has been experiencing a rapid migration of people from hills to plain areas and from villages to towns. Earlier migration was more focused on hills to plain areas as the plain areas offered better agricultural lands. Recently, migration is more from rural areas to urban centers. This has indicated a shift on people's dependency from agriculture to non-agricultural profession.

Changes in Demography	Marketing implications
Rapid growth in population	General increase in the size of the service market.
Very high children to adult population	Increase in demand for children related services including schools, pediatric medical services, baby-care etc.
Large scale migration of people from hills to plain areas	Shift in the nature of the demand for services delivered in the hills.
Increase in life-expectancy at birth	Increase in demand for services for old people.
Rapid urbanization	Increase in demand for services related to urban life-style such as beauty parlors, entertainment, education, training etc.

The demographic change in the last decade has brought new challenges and opportunities for marketers. The rapid growth in population in the country as a whole has naturally expanded the size of the national market. The problem of high rate of birth as well as ageing has provided more opportunities to offer health related services in the market. The rapid increase in private hospitals and nursing homes is a result of these changes. The rapid increase in urban population has brought serious pressure on urban infrastructures such as road, drainage, and drinking water. The rapid urbanization has also provided marketers to sell service products related to urban life-style.

Economic Environment
The size of the Nepalese economy is very small (about GNP Rs. 820 billion in 2007). The national economy has been growing at an average annual rate of five 4 to 5 percent in the last ten years. This is slightly above the average annual growth in population (2.27 percent).

Nepal's economy is predominantly agrarian since about 80 percent of the populations fully or partially depend on income from agriculture. It is estimated that about one-third of the populations still live below the poverty line. Despite the efforts of the government to reduce the incidence of poverty in the country, poverty alleviation efforts have failed miserably. Low productivity of land and declining agricultural outputs has seriously affected the Nepalese economy.

Nepal's economic growth has been largely supported by the growth in the non-agriculture sector. The non-agriculture sector currently contributes about 60 percent to the national GDP. This sector has been growing by more than 6 percent in the last decade. The major contribution has come from the service sector, particularly the financial services and tourism services. About 10 percent of the total population work outside the country. Remittances from the migrant workers have the major source of foreign exchange in the face of dwindling exports.

Economic Characteristics and Changes	Marketing implications
Small size of the economy, Low per capita income, low savings and low investment levels	Small size of the market, Slow growth of the market
Foreign employment and remittance income	A variety of services catering to foreign employment such as manpower companies, money transfer, health check-ups etc.
Growing finance sector	Increase in banks and financial service institutions.
Faster growth in other service sector	Increase in service related activities including transport, communications, tourism etc.
Increase in consumer financing	Increase in demand for services related to urban life-style.

The overall economic indicators provide limited scope for expansion of marketing activities. However, the rapid urbanization and growth in the non-agriculture sectors shows some positive signs for service marketing activities centered on the urban centers of Nepal. The current Nepalese economy provides opportunities to sell a variety of services related to urban life. The Nepalese urban market has a very high demand for transport and communication services. Financial institutions have grown very rapidly as financing needs for housing, automobiles, and consumer durables increased. Financial institutions are largely focusing on retail banking and consumer loan financing.

Socio-culture
Nepal is a multi-ethnic and multi-lingual society. It has several cultural groups based on geography, ethnicity, castes, and religion. These sub-cultural groups show significant variations in their values, attitudes, customs and traditions. Nepal celebrates numerous festivals at the national and local levels.

The growth in transport, communication, and education has been very rapid in the country. The steadily increasing transportation network has led to the development of a national market with the possibility of having a national distribution network. The development in the communication sector is very encouraging with good telephone networks, mobile telephone services, increasing number of Nepali television channels, and access to more foreign channels.

Nepal's accessibility to the global information super highway has become a reality with satellite-based communication technology and fiber optics based communication systems. The Internet services are readily available to urban consumers. Nepal has achieved good

progress in the education sector with the literacy level gradually increasing and availability of advanced education in the country.

The development in the socio-cultural sectors has significantly changed the value, attitude, and behavior of Nepalese people. Nepalese in general are gradually adopting the western value systems and embracing individualism, small families and loose relationships. They are increasingly distancing themselves with established beliefs, religions, and traditions. These changes are visible in dressing, housing, food, education, and entertainment. People in Nepal are getting more materialistic and status conscious. People in order to have better standard of living are looking for employment in foreign countries. It is estimated that more than 200 thousand people are working abroad for better income. Income from foreign employment has been the single most important source to drive the Nepalese socio-economic life in the last ten years.

Socio-cultural characteristics and dynamism	Marketing implications
Multi-ethnic and multi-lingual society	Variety of product and service needs
Increased interactions due to improved transport and communication networks	Cross cultural activities resulting in some degree of harmonization in demand for cross-cultural services.
Westernization	Demand for services related to western life-style
Foreign employment	Increase in service related to repatriation of money from foreign employment

The socio-cultural dynamism experienced in the last two decades has brought numerous opportunities for marketing new services in the country. The rapid growth in child-care and nursery school is a direct result of the small family concept. The increasing use of mobile phones, fashion, department stores, restaurants, Jewellery and beauty parlors is reflected by growing desires to achieve image and status in the society.

Politics and Law
Politics and law of the country play important role in the development of service marketing activities. Unfortunately, political and legal support to marketing has been very little in Nepal. The country has been politically unstable in the last decade. The country has seen frequent changes of government.

Policy stability is almost non-existent. Inefficient administration, ineffective governance mechanism, and inadequate service delivery system has almost crippled all development projects in the country. Moreover, internal political conflict for 10 years has diverted national resources to military purposes. The political system and administrative mechanism have become corrupt. Foreign investment in the business sector is decreasing due to high cost of corruption and lack of security. On the whole, the political environment has not been conducive for development of service marketing.

The economic liberalization and privatization policy of the government had brought about several changes in the legal provisions favorably contributing to an open economy, liberalized trade regimes, and simplified procedures. Nepal gained full membership of WTO.

Despite these positive developments the country lacks effective law regulating intellectual property rights, copy rights and patents that protects innovators. Consumer confidence on the Nepalese products is low due to weak laws protecting consumers. The politico-legal system of the country is very weak. As a result, business organizations focus on ventures that give quick profits.

Politico-legal environment dynamism	Marketing implications
Political instability, political conflicts	High risks in long-term investments. Decline in tourism services.
Weak infrastructure, corruption, and inefficiency	Slow growth in foreign direct investments. High cost of doing business.
Privatization, liberalization, and deregulation	Positive actions for development of service marketing
Globalization and WTO membership	Accessibility to the global markets. Access to international service marketers in Nepal
Economic indiscipline in the private sector	Increased financial risks for financial institutions

The public banks are overburdened by bad debts from big business houses that have become rich personally. These big houses enjoy political and administrative protection through the corrupt mechanism. The focus is more on speculative trade and import activities. The export sector is rapidly declining. The overall effect is on the slow development of marketing activities in the country. The rampant corruption among the politicians, administrators, and technocrats has increased the marketing costs.

Technology
Nepal is eighty percent rural where traditional labor-intensive technology predominates in the service sector. In villages consumer consciousness in terms of product features and quality is very low. Service products marketed in the rural areas are mostly sub-standard. The price is the critical variable in rural marketing in Nepal.

Technology Characteristics	Marketing implications
Labor-intensive technology	Low agricultural and industrial productivity
Big gaps in urban and rural technology	Two types of marketing mixes required

On the other side, the urban market of Nepal has become very sophisticated that demand high tech and good performance services with adequate warranty and services. There is a big gap between the service expectations in the rural and urban market of Nepal. In the urban areas services face very strong competition.

The market of Nepal has become centered on Kathmandu valley that account for more than 70 percent of the market for every product or service. The consumers of Kathmandu valley and some other large cities are well informed through the electronic and cyber media and can execute their buying decisions very selectively. Despite the sophistication of the urban consumers marketers have not been able to innovate effectively. The Nepalese market is swarmed with me-too-products and copycat advertisements.

In view of the big gap in the technology between the rural and urban areas of Nepal, organizations are facing problems of designing services that can sell both in the rural as well as urban areas. Most of the advertisements and other promotions are designed with the urban buyers in mind.

Natural forces

Nepal's geographical location between the two Asian giants – India and China – is strategically important for development of service marketing activities. These two countries account for almost half of the world population and have been experiencing the most rapid economic growth in the last decade. They have become the largest market in the world. Nepal can benefit significantly if it can effectively assess its competitive advantage and penetrate these markets with competitive advantage service products.

Location Characteristics	Marketing implications
Strategic locations between two most populated and rapidly growing economies	Very high potential for marketing service products to India and China
Variety of climate, topography, fauna, and flora	Long-term potential for tourism marketing
Very high potential for hydro-power and fresh water supply	Potential for exporting electricity and drinking water

Nepal is bestowed with a variety of topography and climate that facilitate the production of a variety of horticulture products that have unlimited market potential in India as well as China. Tourism can be promoted in both the countries where a large segment of the population have become affluent and travel frequently to exotic places in the world.

NATURE AND CHARACTERISTICS OF SERVICE PRODUCTS

Service products in Nepal have been evolving with the rapidly changing economic, socio-culture, demographic and technological environment in the country. Nepal offers a variety of service products in different areas. Some of the important service products available in the market are listed as follows:

Public Utility Service
- Postal and courier service
- Hospitals
- Civil aviation
- Electricity
- Water supply and sanitation

- ➢ Telecommunications
- ➢ Education
- ➢ Health care and family planning
- ➢ Tourism development and information

Private Sector Services
- ➢ Manpower supply to foreign markets: manpower companies, consultancies, health-checks etc.
- ➢ Healthcare: Hospitals, nursing homes, rehabilitation centers
- ➢ Education: University, colleges, schools, poly-techniques, vocational training etc.
- ➢ Entertainment: Cinemas, cable TV, dance bars, casinos, parks, water sports etc.
- ➢ Restaurants: Fast food, cabins, dohari, dance etc.
- ➢ Health, beauty, fashion and personal care
- ➢ Transportation: Air, bus, truck, cable cars etc.
- ➢ Communication: Telecommunications, courier, Internet etc.
- ➢ Hospitality: Hotels, Lodges, Resorts etc.
- ➢ Financial services: Banks, finance companies, financial cooperatives.
- ➢ Consultancy: Legal, financial, educational, management etc.
- ➢ Construction: House, roads, bridges etc.
- ➢ Repairs and maintenance of a variety of personal and public goods
- ➢ Advertising: Advertisng agencies, creative services, media agents etc.
- ➢ Publications: Books, newspapers, magazines, stationery etc.
- ➢ Software development and Web designing.

Characteristics of Service Sector
Some of the unique nature and characteristics of the service sector in Nepal are as following:

- ➢ **Rapid growth:** The service sector in Nepal has grown rapidly in the last two decades. The liberalization policy of the 1970s has brought positive development in the service sector. The growth has been remarkable in the transport and communication, education, health, and tourism related services.

- ➢ **Privatization of service industry:** Many services offered only by the public institutions earlier has now been offered to the private sector. Thus in many service sectors both private and public institutions compete in the market. The service sectors that are being privatized are telecommunications, water supply, banks and financial services, and insurance. A quality and efficiency gap is gradually emerging in the market between the services provided by the public sector and private sector institutions. Private sector has excelled in their performance and service quality delivery in the areas of financial and tourism related services.

- ➢ **Slow adoption of the marketing concept:** Nepalese service sector has been very slow in adopting the marketing concept. The service industry as a whole is not responsive to the needs and problems of the customers. The service sector has been neglecting the people and process element of the service marketing mix. Public sector services have very low quality perceptions, and even in the private sector services the main focus is profit rather customer value and satisfaction.

- ➤ **Competition:** Due to the low entry barriers in many of the service sectors there is a very high level of competition. The growth in manpower companies, educational consultancy, and advertising agencies are examples of cut-throat competition in the service market.

- ➤ **Lack of research support:** Nepalese service industry conducts its business without market information and research. This has caused major problems in oversupply of services in many areas such as manpower and education consultancy.

- ➤ **Slow adoption of technology:** Nepalese service industry has been dominated by manpower-based services and has been very slow in adopting technology. This has made most of the service sector based on high-contact causing many problems in the service encounter. The banking sector has shown some initiative in adoption of modern technology.

GROWTH OF SERVICE SECTOR

The service industry in Nepal has a very long tradition. Traditional service providers have been active in the socio-cultural system as caste groups. It was unfortunate that the Hindu caste system placed the major service providers at the lowest level of the caste hierarchy. In the traditional society most of these services were not monetized as compensation for the service rendered were paid in kinds rather than cash.

Foreign army service emerged in Nepal in the mid-19th century after the Anglo-Nepal war when the British East India Company started hiring Nepalese youth in the army service. Nepalese youths have served in the British and Indian army for last two hundred years. Although foreign employment has been part of the Nepalese socio-culture and economic base for some of the ethnic groups, foreign employment in other services has emerged and expanded due to the political conflict and war situation in the country. Currently, this has become a part of the Nepalese socio-economy and show indications of becoming a mega trend.

The service sector in Nepal has been growing rapidly in recent years. New services have emerged in the economic scene due to a rapid change in the socio-economic milieu. The service sector's contribution to the national GDP stands at around 30 percent. The major growth in service is found to be in the financial service sector with more than two dozen commercial banks, more than fifty development banks, and more than 75 finance companies. Cooperatives performing simple banking functions are found in thousands in the country. Similarly, there has been steady growth in the hospitality sector with gradual addition of hotels. Other tourism related services such as trekking, rafting, mountaineering are also growing in the post-conflict period. Nepal has made a very huge investment in transportation sector as the road coverage increased in the country. Communications, particularly cellular mobile services are expanding every year.

Service sector is attracting many new investments from national and international investors. Yet the growth in the practice of service marketing is not up to the mark.

PROBLEMS OF SERVICE MARKETING

In view of the varieties of services available in the country, it is very difficult to generalize the marketing problem of the service firms in Nepal. The major problems faced by the service firms in Nepal are summarized below:

- **Overcrowding and lack of differentiation:** The service industry faces very rapid overcrowding as many investors join in the fray to make quick-money out of an emerging service opportunity. Many service providers come to a service business with very little knowledge and skill to run the service business. This has been clearly seen in the manpower companies, educational consultancies, and advertising agencies. Thus, the rate of failure in service business is also found to be high in Nepal. Moreover, all service firms are same in terms of the variety of service offered, quality of service personnel, and final delivery of service quality. The commercial banks are glaring examples in this matter.

- **Lack of customer focus:** The service firms in Nepal have a very low focus on their customers. They generally do not try to understand the needs and priorities of their customers, do not design their service products according to the customers' needs, and do not deliver the services according to customers' expectations. Market research has hardly touched the service industry in Nepal.

- **Low emphasis on people, process, and physical evidences:** The service firms in the country do not have appropriate human resources strategy to develop people as assets and competencies. Internal and interactive marketing has no prominence in the firm's strategy. They only focus on external marketing often increasing customers' expectations beyond their service delivery capacity. The Nepal Investment Bank's Re. 1 account opening and issue of debit card can be an example. Process is also a low priority as most competing service firms have not used process as the differentiation factor. Physical evidences, particularly the essential evidences have received low priority in most service firms. Often the essential evidences and peripheral evidences of service firms also do not match.

- **Technology shy:** Most service firms in Nepal are dependent on manpower. They are generally shy to adopt and use the modern technology in the core service or in the information, communication technology. Service encounters are poorly managed in most of the service firms.

- **Infancy and potential foreign competition:** The service marketing in Nepal is in the stage of infancy with many problems. Yet, with Nepal's membership in WTO the country will be forced to open most of its service sector to foreign players. Nepalese service industry will face difficult time if foreign players with huge resources and capabilities come to the country to compete with indigenous service firms.

PROSPECTS OF SERVICE MARKETING IN NEPAL

Nepal's competitive advantage lies in the service sector. The image of poor and happy people has been communicated all over the world. This has expanded Nepal's tourism and manpower export market. The low-cost advantage Nepal has can be utilized by service firms in the global market. Some prospects of developing service marketing can be visualized in the following areas.

Health service: The cost of health service in the developed capitalist countries have become prohibitive, as a result people in those countries are looking for health services in developing countries. Thailand and India have already exploited this opportunity. Nepal can also develop world class hospitals to provide surgery services to the global market. The temperate climate of Nepal can be a competitive advantage in this type of service.

Tourism: If Nepal can expand its tourism service products there is a very big scope in tourism. The current product offers have been obsolete and does not attract tourists to visit a second or a third time. The village and cultural tourism and paragliding are good new introduction. In view of the large reservoirs developed by hydro-electric projects many water sports can be promoted.

Manpower exports: Since manpower exports have taken a deep root in the country's socio-economic environment Nepal can focus on further development in this area. Value addition of Nepalese manpower should be the country's strategy in this area. Nepal should focus on the semi-skilled manpower market, for which it should provide training to the manpower before sending them abroad.

Information-communication Technology: In spite of the large number of manpower development in the IT sector, the country has not been able create a good sustainable IT sector. In case if the current infrastructures can be upgraded the country has good prospect in developing many kinds of services based on the ICT.