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Customer Relationship and Services Management

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Customer Relationship and Services Management

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- ➢ To familiarize with the issues of service management and global context; and
- ➢ To be able to manage a market oriented service organization.

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Text Books

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2. **Gilmore (2004),** SERVICES MARKETING AND MANAGEMENT, *Response Books, New Delhi.*

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UNIT - I

Unit Structure

Lesson 1.1 - Customer Relationship Management in Tourism

Learning Objectives

The main objectives of this lesson are:

➢ To know the importance of CRM in tourism industry.

➢ To explore the nature of customer relationship management in tourism.

➢ To understand the CRM initiatives in tourism industry.

➢ To analyse how CRM will increasingly play an important role in determining the performance of the various sectors of tourism.

"The customer relationship management initiatives in tourism calls for exceeding the expectations of customers by going extra miles to provide quality service that goes beyond the 'value for money' and ends up delighting them."

Introduction

Customer relationship management is the integration of sales, marketing, service and support strategies, process, people, product development, packaging, promotional channels and technology to optimize customer acquisition, value, relationships, retention, loyalty and satisfaction.

The core objective of CRM is to form, strengthen and reinforce 'bonds' between a company and its customers. CRM focuses on the approach of identifying, establishing, maintaining, and enhancing lasting relationships with customers. Customer relationship management is the most exciting and popular buzz word in global business today.

The concept of CRM involves developing a personal as well as a professional profile about each customer of a company. Such profiles shall comprise basic and historical information about the customers, their personal references, buying behavior, decision making, attitudes and motivations, trends and habits, and demographical information. The emergence of service as well as market economy, globalised business operatives and ageing population of the economically advanced conglomerations have been identified as the growth drivers for CRM. The main reasons identified for the adoption of CRM concepts and practices are increase in customer expectations and demand and affordable technological developments. The initial adopters of CRM in the business to consumer markets were financial services, retailing, telecommunication, tourism, transport and hospitality, automobile manufacturers, and utilities. The past two decades witnessed an explosion of CRM in marketing and IT. A combination of demand and supply led factors is expected to accelerate the adoption of CRM by various range of businesses globally, in the coming years. The reduced costs of information and communication technology will remove the barriers to adoption of technology led CRM initiatives. The technological developments are also proving to be a win-win for businesses as well as customers. Therefore, it is not surprising that e-commerce and internet trading is experiencing remarkable growth. The off-shoots of developments in information technology, viz, data warehousing and data mining have now made it possible for companies to maintain one-to-one relationships with their key customers.

Marketers, in today's competitive business scenario find it more profitable to focus on their existing customers. Studies have shown that it costs up to 5-10 times more to attract a new customer than to retain an existing customer.

Marketers are now focusing on the lifetime value of their customers. They are shifting from merely attempting to sell their products and services to understanding customer needs and wants and satisfying them, and motivating potential customers; translating them to actual customers. This paved the way for a relationship orientation which creates opportunities to cross sell products and services throughout the life span of the customer.

CRM, over a period of time will bring down a firm's dependence on periodic surveys to gather data. Data collection and compilation related to buying and user behavior will be an ongoing process. In certain cases, the transaction data is automatically gathered; as

in the case of e-commerce transactions, it is collected 'realtime'. Customized promotions based on customer interest and patterns of purchase will decrease spending on mass communications and even direct mailing.

The foundation of effective CRM is structured on an interative process of learning and customization. Organisations interact with their customers; learn and understand them- who are they, what their requirements are, how much they buy, and how much it costs to serve these customers. Thus, by analyzing the data, organizations will be able to identify the key customers and it becomes imperative for them to maintain these customers.

Tourism is a multi-dimensional industry made up of various sectors related to virtually all areas of the economy. This sun rise industry has captured an increasingly significant position in the global economy. Tourism enjoys a distinguished position owing to its immense business opportunities and close linkages to the transport and accommodation industry and a host of other sectors. Tourism is a dynamic service industry. It is considered to be a labour intensive industry. The World Travel and Tourism Council (WTTC) forecasts that tourism will grow on an average of 4.5% annually between 2005 and 2014. In recent years, virtually every tourist destination has taken steps to increase the number of visitors. The revolutionary developments in air travel and technological resources such as GDS and Internet have provided new opportunities for countries and individual tourism firms to promote tourism, both within and across borders. The increase in rising incomes and leisure time are also key factors attributed to the phenomenal growth in the tourism sector.

Customer relationship management in tourism is essentially about building long-term and mutually beneficial relationships with tourists. While providing services to tourists, the dynamics of building relationships with them takes on a different dimension due to the very nature of service offerings. The nature of tourism services makes it difficult for customer relationship managers to design, deliver and manage its quality. Tourism organizations are found to devote most of their time and expenditure to attract new customers while efforts to retain the existing customers are not very seriously planned. It is equally important for the tourism firms to retain customers and not merely expand the list. Retaining the existing customers (tourists) forms the main theme of CRM. CRM gives more emphasis on attracting, maintaining, and enhancing customer relationships.

What is Customer Relationship Management?

Customer relationship Management (CRM) is a well conceived business strategy with long-term outcomes that maximize profitability, revenue, and customer satisfaction by organizing around customer segments, fostering customer satisfying actions and

implementing customer centric processes. CRM is a strategy employed to learn and understand customers' needs, wants and behaviours in order to develop stronger and sustained relationships with them.

Buying & Selling	Relationship Marketing	Customer Information Management Systems	Customer Relationship Management	e-CRM (Internet, www,e-channels)

Time Frame

80's　　Early 90's　　Mid 90's　　Late 90's　　2002

History of CRM
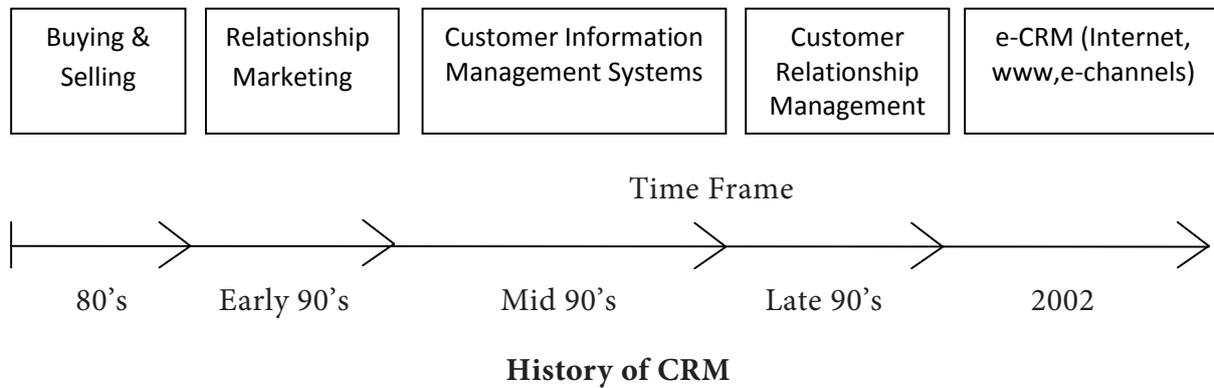
Why Customer Relationship Management?

The necessity of CRM is elucidated by the following touch-points:

➢ It costs 5 to 10 times more to sell to a new customer than to sell to an existing one.

➢ Sixty to seventy percent of the actual customers who are complaining about specific products / services will not cut ties with the company if the complaints are actively listened and swiftly addressed.

➢ A typically dissatisfied customer will inform 6 to 8 people / potential customers about his / her experience (mostly related to poor customer service).

The Need for CRM in Tourism

The direct contacts between marketers or service providers and tourists create opportunities for greater understanding, a better appreciation of needs as well as short falls and challenges, and emotional bonding; all of which facilitate building relationships. Tourism and the various related sectors are pioneering many of the CRM initiatives.

There are numerous service providers for each component of tourism and therefore customers have plenty of options to choose from. Customers are prone to switch over from one organization to another. Thus, there are needs and opportunities for tourism companies for attracting customers are building relationships with them. While promising quality service to tourists, organizations must ensure its prompt delivery. This is one of the ways for differentiating on dimensions of service that becomes meaningful to the tourists and difficult to imitate.

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                    │      COMMUNICATION CHANNELS          │
                    │  Marketing, Service, Support & Sales Calls │
                    └─────────────────────────────────────┘
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Management view	Sales view	Marketing view	Service view	Support view	Others views

CRM System

Web	Windows	Wireless

CRM SOFTWARE

- Opportunity management
- Marketing ROI
- Resource Center
- PIM
- Sales Forecasting & Reports
- Automation
- Project management

Accounting

Web/Intra/ Extranet

Customer Database (Open industry standard)

ERP/ Back office

Other applications

Legacy Applications

Customer Relationship Model

The Goal of CRM in Tourism

The principal goal of CRM practices initiated by tourism companies is to establish a profitable, long-term, one-to-one relationships with tourists; understanding their needs, preferences, and expectations.
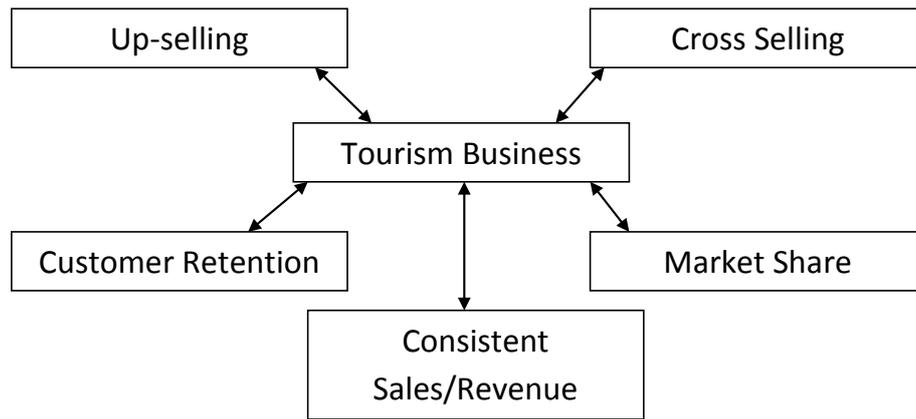
Benefits of CRM for Tourism Businesses

Tourism Industry and the Process of CRM

Primarily, as regards CRM process in tourism, it is utmost important for firms to determine and focus on psychology of tourists. Destination planners and tour marketers must comprehensively attend to the *feelings* of tourists towards a particular destination / product / service. Furthermore, it is essential to influence the environmental forces that impact the decision – making of tourists. By analyzing tourists' buying behavior and patterns of purchase, tourism service providers are bound to gain competitive advantage.

They get a clear-cut understanding of the demand (market) and hence are able to offer customised services to tourists (supply). Destination developers and tourism companies must grasp the limitations the tourists have in terms of product / destination knowledge. In the context of tourism operations, the organizations need to engage the best strategies for effectively convincing the tourists. 'Conviction' is of supreme value for winning the hearts of customers. Honesty pays rich dividends while exaggerative claims and non-delivery or under-delivery of promises tend to backfire.

Benefits of CRM for Tourists

8
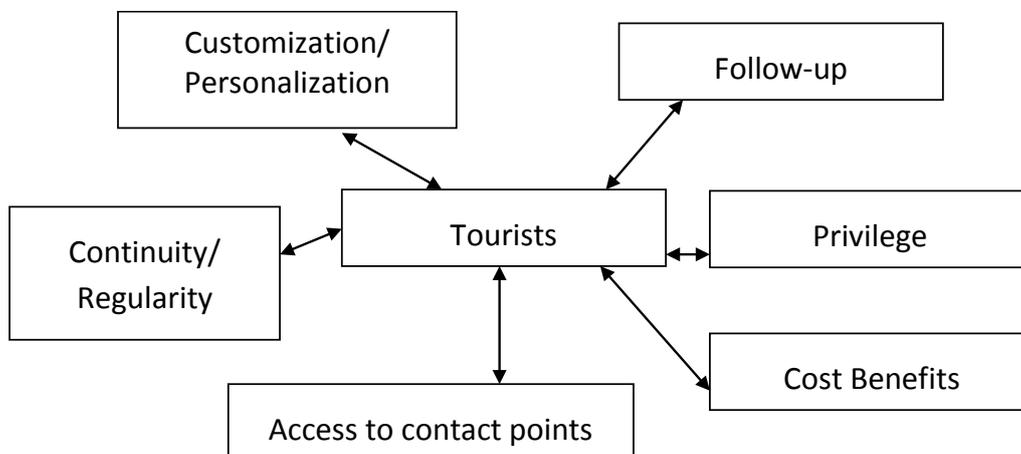
Phases of CRM in Tourism

There are three phases of CRM in tourism which are as follows:

**First Phase- Establishing New Customer Relationships**

In the first phase, tourism organizations need to acquire new customers / market segments or widen the customer base by promoting the destination offerings / packages / products and service leadership.

Second Phase – Enriching Existing Customer Relationships

In this phase, tourism companies enrich the relationships by offering premium products / services in a cost – effective fashion. Also, they create a platform for excellence in cross selling and up selling, thereby deepening and broadening the relationships.

Third Phase – Retaining Customer Goodwill and Relationships

CRM in tourism focuses on maintaining one-to-one relationships with tourists. In the third phase, adaptability is the factor which is highlighted. Tourism service adaptability is delivering what exactly individual customers prefer and not what the market requires.

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┌──────────────────┐   ┌────────────────────┐   ┌──────────────┐
│  Data Storage &  │ ◄─│        CRM         │─► │   Process    │
│    Retrieval     │   └────────────────────┘   │   Change     │
└──────────────────┘             │              └──────────────┘
                                 ▼
                        ┌─────────────────────┐
                        │   Contact Points    │
                        └─────────────────────┘
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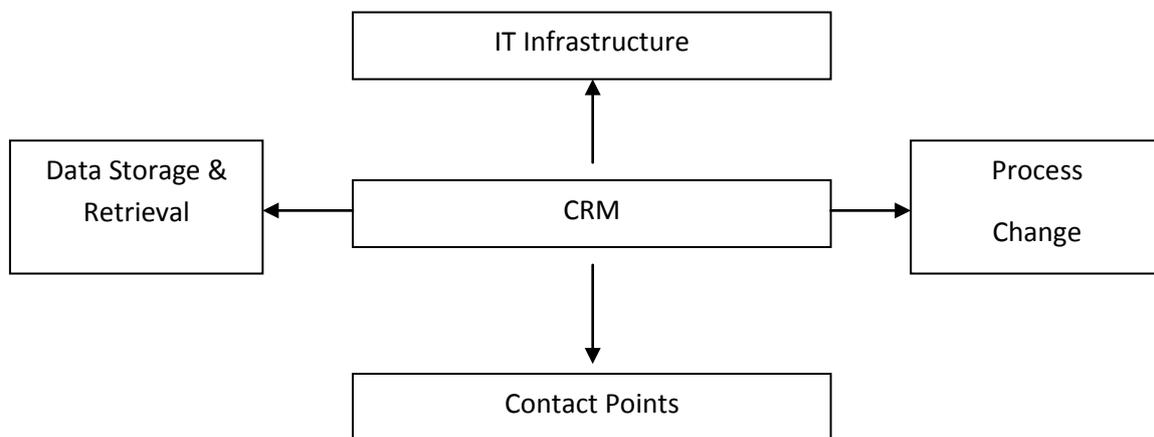
Potential Costs of CRM in Tourism

CRM in Hospitality

What really matters in the hospitality industry is the nature of contact the players enjoy with the customers. The contact with the customers might be repeated and take place for a longtime with increased frequency. As a result, it is imperative for hospitality establishments to make their service delivery mechanisms error-free, offsetting the possible

problem areas. The hospitality industry comprises hotels and restaurants of various types, and classifications, resorts, time-share properties, supplementary accommodation facilities, visitor information centers, etc. It is a people – driven industry. The kind of interaction between staff of hospitality firms and customers takes place over a long period.

In the case of a hotel, the contact starts right from the time the customer enquires with the staff regarding room availability through phone or through an agent and further go on to book the room, may use the transport facility of the hotel to reach there, room occupancy, room service, and finally check-out. There is continuous interaction between the customer and the employees of the hotel during the above mentioned service encounters. It is clearly evident in the case that the people (hotel staff), physical environment (ambience of the hotel), process (smooth reservation, etc) Public Relations (communication of goodwill and efficiency) and programme (ethical dealings) have to play a vital role in the satisfaction / dissatisfaction of the customer.

The hospitality firms have realized the need to cultivate long-term relationship with their customers. They strive to manage and maintain the warmth in customer encounters by profound caring and anticipating their needs and requirements. The whole idea here is to retain the existing customers and increase the duration / regularity / frequency of their visits. The CRM approach works towards exceeding the expectations of the customers by providing quality service beyond 'value for money' resulting in delight of customers. The main drivers here are improving staff –customer relationships by training the *people* of the hotel in professional conduct and chalking out effective 'packages' for providing the customers delightful experiences

Hospitality services are subjected to upgradation of standards in terms of service quality and infrastructure. Since customers vastly differ in their likings and preferences it becomes important for the management and employees to treat each customer as an individual entity. They must know their customers well. The networking in hospitality is outstanding. Many hotels have world-class information systems to collect information about customers from various contact points which are analysed and shared on a routine basis. Such information comes handy to hotel staff to serve their customers better by customizing their services to individual needs. Thus, personalizations to the point of providing services' catering to individual requirement and tastes are likely to attain customer delight.

CRM programmes also cover the hotel employees. The moral of employees are boosted; for them to have sound interaction with customers during service delivery. Hospitality firms provide adequate training to employees while attending to their welfare and comforts. Top firms make sure that all the employees are aware of the vision and

organizational philosophy. The importance of well defined processes designed for employees, viz, proper feedback and performance appraisals are often stressed by premier hospitality firms.

The CRM programmes implemented by the hospitality trade now have become very innovative. Frequent Clients Programmes reward regular customers of the hospitality firm. The more the usage the greater are the rewards. Moreover, some firms have introduced the point system. When the points get accumulated and reach a position so as to be redeemed for free stays or privileged services, the customers are delighted. Yet another innovative scheme is the membership offers wherein frequent customers are encouraged to join an elite or exclusive club which offers benefits such as discounts on services, free stay for children, choice of rooms, free use of certain facilities such as health spa, etc.

Hospitality firms keep in constant touch with their customers through newsletters and publications. Such publications will feature the new services provided by the hotel, new offers, starting of a new operative in a tourist destination, expansion plans, rewards for frequent customers, etc. These efforts are aimed at earning the goodwill and loyalty of the customers. A desirable outcome here is that satisfied customers spread the good words about the hotel properties, resulting in escalation of the percentage of repeat customers. The word of mouth publicity or referrals which play an important role in hospitality is the hallmark of all CRM programmes.

CRM in Aviation

Similar to the hospitality scenario, airlines industry, which is a capital intensive industry, also face customer contact lasting for a longer duration- over the period from scanning the information on flight schedule and fares to checkout from the airport upon arrival. Airlines always look forward to cultivating long-term relationships with their customers. Many airlines launched Frequent Flyer Programmes (FFP's) longtime ago. Aviation industry is highly competitive and hence maintaining effective relationships with key customers become extremely important for airline companies. They use various CRM strategies to attract and retain customers.

The following are some of the CRM practices adopted by airline companies worldwide:

1. **Differential Pricing**

This is to distinguish between different passenger class travelers of an airline. Preferential treatment is meted out to First class or Business class travelers and they pay

more as compared to Economy class travelers. The Business class travelers are offered special services such as quick checking in, better seats, leg space, ample choice of songs and movies, better recreation facilities, personal selection of food and beverages, and swift checkout procedure.

2. Frequent Flyer Programmes

As per this programme, a traveller gets points for each flight he/she flies with the airline based on the miles covered. He/she can redeem these points for a free air ticket.

3. Hotel Accommodation for Stranded Passengers.

This is usually a goodwill initiative of airlines. When the journey of travelers of airlines are disrupted due to inclement weather, bomb scare, technical problems, etc., or when the connecting flights are missed, although the airlines are not at fault, they take the responsibility of providing hotel accommodation, transport and other facilities to the stranded travellers.

4. APEX Fares and Seasonal Fares

This is based on the time of purchase of tickets. Advance purchase Excursion fares or APEX fares are dished out to customers when they book the tickets in advance. They need to pay only a fraction of the price that they would have paid while booking the ticket close to the day of air travel.

Journeys during special occasions or festive seasons are also eligible for discounted fares, very much encouraged by the airlines.

5. Air travel concessions for students, senior citizens, disabled passengers, health care professionals, members of social service organizations.

The CRM programmes for airline employees start with training them to keep up a smiling face and pleasant disposition even on the face of adversities. They are briefed on the methods to deal with angry customers, mishandled luggage, baggage misplacements, flight delays and cancellations, etc.

Airline companies usually empower their employees to handle the situation adeptly. They are also advised on the ways to deal with new situations either at airports or in the flights, IT is used extensively for booking tickets quickly and for maintaining records of

customers. Customer service executives of airlines play an equally important role akin to the guest relations executives of hotels. The customer information counters disseminate accurate, reliable and up-to-date information about flight plans, schedules, reservations, and other related information.

6. Multi-Channel Customer Access

Most of the airlines reach out to the customers by way of websites, call centres, travel agents, emails, online travel access, etc to facilitate easy and convenient access. Strategic tie-ups are also formed with other vendors with a similar motive. Partner portals are given rights by certain airlines for bidding for air tickets. Some airlines have set up call centres to assist customers for booking tickets and also for other transactions like information on rescheduling of flights, cancellation, etc, to customers.

7. Automation and Co-Creation of Values

Airlines globally have automated lot of processes. For example, e-ticketing and check-in through the customer's mobile phone. More fruitful relationships with customers are cultivated owing to enhanced service value through co-creation of value along with customers.

8. Improved Value through Strategic Tie – Ups

Many airlines have formed alliances with other airlines. For example, the Star Alliance. Airlines have also tied – up with other service providers such as hotels to offer improved value to customers. On the other hand, competence can be advanced through tie-ups in areas where airline companies lack competence.

In the modern day, the CRM programmes determine the performance of airline companies.

The Dynamics of Professionalism for Better CRM in Tourism Deliverance of quality service to customers is the backbone of the tourism industry. Tourism professionals should acquire the skills to understand customer needs, wants, and expectations. They must know their products / services, competitors, and have good public relations. Tourists are delighted when their needs and wants are met and service goes beyond their expectations. Tourism professionals should realize the fact that satisfied customers are the best source of publicity for the firms and it is a state of self–actualization for the firms. The satisfied customers motivate new customers to try out the services.

The CRM database in tourism encompasses:-

- ➢ Customer track record including names, tastes, preferences, buying habits, birth days, important occasions, etc.
- ➢ Up to date information on product / service
- ➢ Details of employee expertise
- ➢ List of affinity (loyal) customers
- ➢ Reward systems
- ➢ Team reward and recognition
- ➢ Frequently Asked Questions (FAQ's)
- ➢ Customer queries and complaints
- ➢ Trouble – shooting guide
- ➢ Market survey
- ➢ Innovative product service features
- ➢ Customer differentiators
- ➢ Personalization attributes

The up-keep of the image of the tourism organization is at the centre of all CRM programmes. Customers expect prompt, efficient service in a calm, professional and pleasant atmosphere. Sound customer relations evolve out of employees working with utmost co-ordination and co-operation.

A sensible tourism professional uses both technical skills and interpersonal skills such as empathy, etiquette, communication skills listening skills, body language, gestures, etc., while dealing with customers.

Tourism professionals should be well versed with product knowledge. Destination / product knowledge is equally important to good sales and customer service skills. Knowledge about the methods in which tourism services will be provided is also a pre-requisite of tourism professional.

Product knowledge in the realm of tourism configures

a) Destinations,
b) Transport services,
c) Various tours and packages, and
d) Service providers.

A good CRM strategy will lay emphasis on follow-up actions. This involves accepting the payment and thanking the customer, greeting the customer on special days / occasions, congratulating the customer for any offer or discount, seeking feedback on service offerings, etc. These efforts are to make the customers know that the tourism firms care about them and hope to see them again as repeat customers.

The way customer complaints are effectively handled solidifies the relationship between the tourism company and the customer. Customers expect service providers to listen to their problems and assure them with apt solutions. If a tourism organization wants to achieve customer loyalty, the employees must actively listen to the customers' complaint, be sympathetic and handle it efficiently as per the organizational policy.

Every tourism professional should understand that a complaint is a very important source of information about the quality of their services or products. It is always better to comprehend the complaint and treat it as an opportunity to better the service delivery mechanism rather than having a dissatisfied customer, who does not complain, but is determine never to come back to the organization.

Tourism professionals must attend to maintaining good grooming standards and excellent personal hygiene for creating a positive impression among customers. They must constantly polish the customer service skills. Exquisite interpersonal skills help a great deal in creating and retaining satisfied and delighted customers.

Customers are always expecting services that give them a unique experience along with comfort and value for money. In a competitive environment, tourism principals are redefining the concepts of service delivery and are going an extra mile to offer the customers exciting and memorable experiences. The customer relationship management strategies in tourism aim at pampering the tourists with the latest and the best in services and products. Tourism organizations delight the customers with rare and authentic experiences. The Global Distribution System (GDS) is a computer reservation and information networking system that is often operated by multiple airlines and used by travel agents and other travel professionals. GDS stores information on all types of tourism products like hotels, insurance, forex, airlines etc. The GDS that comprises of a huge database associates the customers with all the services. It has revolutionised the CRM practices in tourism.

Summary

Tourism industry is characterized by rapid changes in customer buying behavior, technological developments, competitive structures, service delivery mechanism, and

distribution channels. For any CRM programme in tourism to be successful, organizations need to follow a long-term and consistent policy about how customers are to be managed, by offering unique experiences and preferential treatments, enhancing service quality, knowledge management, adoption of latest technological practices, motivating customers to be co-creators of services, devising excellent customer loyalty schemes.

This lesson highlights the fact that the paradigms set by CRM in tourism industry can be enhanced by imbibing quality service delivery functions which are bound to exceed customer expectations. The subscription to the latest technological practices such as GDS and GPS has brought about explosive changes in CRM in tourism.

Tourism organizations world over invest considerable amount of time and money in studying the needs, wants, demands, tastes, and preferences of customers. By analyzing the data they will be able to identify key customers and chalk out programmes to retain them on a life-term basis.

However, the nature of tourism services makes it difficult for relationship maangers to design, deliver, and manage the quality of CRM policies. CRM in tourism gives lot of importance to attracting customers by pepping-up the relationship programmes; further maintaining and enhancing customer relationships.

The hospitality and airline sectors have devised special CRM programmes as the business environment turns out to be highly competitive. Frequent Flyer Programmes, training of staff, smooth booking procedures upgradation of standards, world–class information systems, feedback and performance appraisal system, differential pricing, airline concessions, automation and co-creation of value are some of the latest practices. Customers expect prompt and professional service delivery in a conducive environment and adept CRM professionals must use both technical and interpersonal skills to carry out the programmes successfully.

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Lesson 1.2 - Customer Acquisition, Retention, Loyalty

Learning Objectives

The main objectives of this lesson are:

- ➢ To understand the advantages and disadvantages of CRM.
- ➢ To know the steps to improve CRM.
- ➢ To learn the importance of customer acquisition.
- ➢ To elucidate the customer retention strategies.
- ➢ To familiarize with the perspectives of customer loyalty programmes.

"CRM is the art and science of building reliable, stable, appropriate, and enduring relationships between companies and customers".

Introduction

Customer relationship management is the mechanism of bonding between customer and the organization. It is an approach of identifying, maintaining, and enhancing long lasting relationships with customers. Customer relationship management may be defined as a companywide business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing highly defined and precise customer groups. A good CRM has a sophisticated database.

Customer acquisition is the process of acquiring new customers for business or converting existing prospects into new customers. The necessity and importance of customer acquisition varies according to the specific business context of a company.

This process is particularly concerned with issues such as acquiring customers at a lesser cost, acquiring as many customers as possible, acquiring customers who have affinity and are business oriented, acquiring customers who are keen to subscribe to newer business channels, etc. CRM policies must draw action plans to invite special attention of the customers.

Customer retention is about giving customers what they expect; its about delivering them the offerings that exceed their expectations thereby they turn out to be loyal advocates of the brand / organization. Customer retention in a way build-up the reputation of the firm in target segments and directly impacts the profitability margin of the firm.

The reasons for the companies to give more importance to the retention of customers through CRM programmes are:

a) Acquiring new customers is more expensive than keeping a current one;

b) Customers who maintain strong relationships enhance the profitability over a period of time;

c) Firms are more likely to get back a lost customer through effective CRM practices than attract a new customer.

Customer loyalty is the key objective of CRM. Customer loyalty is established between a customer and companies, persons, products (or) brands. It is essential to target individual market segments for developing customer loyalty. The core philosophy of customer loyalty is "treating customers the way they want to be treated".

Advantages of CRM

➢ The all-round growth of the company and its employees satisfies its customers too.

➢ The organisations' care of customers' needs and problems in a better way fetches them loyal customers.

➢ Sales force is automated.

➢ Customer information is integrated which saves time and energy; analysis becomes a smooth exercise.

➢ Unwanted and irrelevant processes and procedures are eliminated.

➢ Operation cost is reduced as the focus is enhanced.

➢ Brand name is established at a fast pace.

➢ Database is centralized for quick access; for keeping track of customer contacts.

➢ Highly beneficial for sales and marketing teams as they are armed with knowledge about customer needs, tastes, preferences, and expectations.

➢ The whole organisation is set out to work according to certain well – laden rules, principles, and philosophies.

Disadvantages of CRM

> ➢ Company wise change of priority to customers.
> ➢ CRM warrants investment of good amount of time and money.
> ➢ Pose threats to management's control exercises.
> ➢ Stretches people's resistance to change.
> ➢ Integration that does not confirm with pragmatic perspectives leads to chaos.

How to Enhance CRM?

Step 1: Build a customer database

Step 2: Analyse the database; define customer types, and scan for profitability.

Step 3: Identify key customers

Step 4: Implement CRM programmes to delight key customers

Step 5: Evaluate the efficiency of the programme.

The contents of CRM database

1. Customers' demographical profile
2. Contact history
3. History of transaction with customers
4. Customers responses to marketing communications

Types of Customers and their Characteristics

Customer Types	Characteristics
Platinum	Heavy and reliable users of products / services; not price sensitive, do not hesitate to try new products, and are considered to be very loyal.
Gold	Large users who look for offers and incentives, wide buyers; not so loyal
Iron	Low volume or intermittent users; incur high cost in serving them.
Lead	High demanding type; expects special attention; not great buyers; show no loyalty.

Customer Acquisition

According to Cao and Gruca (2005), successful CRM commences with the acquisition of the right customers. It is essential that a company must be able to differentiate between the bargain hunters, loyal customers, and competitive customers. Jain and Singh (2002) stated that customer acquisition costs must be included as a component while calculating the Customer Lifetime Value (CLM).

Customer acquisition may be defined as a process of acquiring new customers for business (or) translating existing prospects into new customers. Surveys indicate that the cost of acquiring new customers is considerably higher than the cost of serving existing customers. Crosby and Johnson (2005) opined that "adding a new customer costs three to seven times more than keeping an existing one". Moreover, it takes time for a company to distinguish between key customers and indifferent customers.

Organizations are experimenting on the ways to acquire new customers by spending less on the acquisition costs. Web marketing and e-commerce have enabled companies to get in touch with a large number of new customers across the globe without setting up branches in those locations. Similarly, the reduced costs of communication owing to e-mails, social networking media and web interface have made it easy for firms to acquire customers from distant places.

The whole process of customer acquisition should concentrate on:

a) Primarily, it is important to determine and focus on customer psychology, say for instance, how the customers may consider the products / services;

b) The firms must have a concrete view on how the potential customers are influenced by the surrounding environment like the business, culture, technology, media, etc;

c) Firms also should analyse the trends in customer behavior and the tendencies while purchasing a specific range of products;

d) It is necessary for companies to study the customers' limitation of knowledge processing capacities which influence the decision making power;

e) It is equally important to engage the best strategies for effectively convincing new customers and enhancing marketing activities.

Organisations must target customers for recruitment taking into account their quality, credit worthiness, likely persistence, etc. From the time a company decides to

target a prospective customer to the time the customer makes the final purchase – CRM needs to be on target ensuring that the product features, quality and cost are well followed by customers through lucid advertising, sales promotion material, trade communication, product literature, etc. They should provide customers avenues to bring out and solve any relationship issues during the acquisition process. Prospective customers certainly appreciate any return guarantee' that may be extended by firms in case the customer do not want to continue the relationship.

Organizations must facilitate the process of education through user manuals, websites, information kiosks, contact centres, product demos, online support, etc to potential customers.

The Cost of Customer Acquisition

The cost of enrolling new customers includes the cost of sales, promotions, branding, customer testing etc. In this context, the ratio of customer acquisition to customer retention turns out to be significant for the firm. As the cost of acquiring new customers is high, firms should ensure that customers acquired are efficiently retained and their customer lifetime value realised to the optimum extent. It is very important for firms to determine the worth of keeping the customers and constantly check the resources offered to them. Thus, the firms will be able to ensure that it is extending its resources to valuable customers only. Banking firms like Citibank spends massive sums on advertising and promotions of credit card every year to enroll new customers. Yet, as the acquisition costs are high, if the customers discontinue the use of its credit card within a short time, the bank incurs loss on the customers.

Customer Retention

It is a fact that retaining customers is far more cost effective than recruiting new ones. Some customers are identified to be more profitable than others and therefore firms draw-up effective CRM strategies to retain those valuable customers for a win-win situation. For most companies 80 percent of profit comes from 20 percent of customers.

An organisation is able to serve customers in a better fashion if it understands them well and knows their needs, tastes, and expectations better. Provision of the products customers want ensuring supply at the right time through consistent service delivery mechanisms leads to their retention. CRM gives the holistic view of the customer, enabling the firm to take tactical and strategic actions to meet customer needs.

Customer retention is increasingly becoming more and more significant as companies understand the value of a loyal customer. Most companies offer loyal customers' rewards, privileged services, and preferential treatments for their loyalty. It is clear that rewards can and do build customer loyalty.

Reward programmes must be properly designed or they will at best return only a certain percentage of their potential value. Organisations can profit from their current customers through the creation and maintenance of customer portfolio, its analysis, a customer retention marketing mix, and reorganisation for customer retention.

Customer Portfolio Analysis

Firms need to scan the buying history of its customers before developing customer plans or reward programmes. An optimal customer portfolio consists of a balance of new and repeat customers fetching target sales and turning out to be profitable. The design of a portfolio starts by probing meaningful customer classification based on market research of real patterns of purchase.

The portfolio segments can be measured in terms of number of customers, number of purchases, demographic and psychographic database, and contributions to sales and profits. A firm can forecast the sales figures for a particular year following the analysis of a customer portfolio and its contribution to sales. In this way, the firm intends to reduce the defectors to 10 percent while at the same time escalate the repeat customers to 60 percent.

The three basic factors to be considered in probing the optimal balance in a customer portfolio are:

a) There are differences in perceptions about products by customers. When the product characteristics are perceived to be better than the competitors, then it is relatively easy to retain those customers.

b) The product category volume growth impacts the balancing of a customer's portfolio. When a firm possesses lot of repeat customers in the growth stage of the market, it may mean that recruiting/attracting function is taking a back seat.

c) The relative costs and benefits of acquiring and retaining customers must be compared. The customer portfolio must be based on genuine customer feedback analysis by monitoring the marketing performance periodically and measuring customer satisfaction.

Reorganisation for Retaining Customers

Lack of organisation control and co-ordination often leads to loss of customers. The two forms it takes are:

a) Insensitivity to customer attrition rates; and
b) Insufficient linkage between the marketing function and the operations group.

Firms need to set realistic target turnover rates for evaluating market performance. Thus, organisations would consider retention plans more seriously. Another approach that would highlight customer retention is executive accountability. This would transmit the message all through the firm on how serious the firm is on customer retention.

There should be proper synergy between marketing and operations group of a firm. This may culminate in overselling. The marketing section offers promises to raise customer expectations and when it is not fulfilled they are disappointed. This is in spite of the quality of the product or service. The customer retention strategy moots the customer as the final arbiter of product and service quality. The firm may sometimes jointly evaluate and address quality issues with customers.

Customer Retention Marketing Mix

The customers' retention marketing mix is a set of actions and strategies that aim at retaining key customers. It is composed of several elements such as product add-ons, convincing promotions, sales force contacts, specialised distribution system, and post purchase transactions

a) **Product Add-ons:** This is directed at providing customers more than the basic product. The core approach here is to create a total product service system that contains not only the items purchased by customers at the first instance, but also value-adds and relative benefits from the product line. For example, KFC offers colas and popcorns with the chicken hamburger. Such initiatives allure customers to remain sternly with the firm.

b) **Convincing promotions**- Promoting a product or its new version works better with existing customers as they already have the knowhow. It may be directed at advancing product knowledge, or introduce customers to the firm's other products. A firm can promote its products among customers with conviction through publications that are targeted at buyers who have shown some degree of commitment. Post purchase dissonance also can be cut down considerably by communicating after the customer

completes the purchase act by mail or phone. This also helps to clear any confusion buyers have on product purchase.

c) **Sales Force Contacts** – The goal of sales force in any firm is to establish long-term relationships with the customers. The sales force engages the customer and have direct interface with them.

It is utmost essential for any firm to instill adequate knowledge about the product/ service to the sales team members. They should be professionally trained to have fruitful contacts with customers. The sales force must possess the necessary skills to act as trouble shooters when the customers, are having problems with the product/service. CRM solutions and other supportive expertise enhance the sales team's ability to assist customers and deal with their problems effectively.

d) **Specialized Distribution System**- Organisations can attempt to retain customers through separate distribution networks, extending special functions. This is in consonance with the distribution strategies developed by the firm. In banks, there are two types of counters. The manually operated counter with a teller may be for new customers who do not have proficiency with automated teller machines. The other counter will be the one with an ATM facility for old customers who are inclined for self service. Dealer support is also crucial to foster repeat purchases of a company's brands.

e) **Post – purchase Transactions** – An enterprise must anticipate the problems that customers might encounter after purchasing. After sales service can be extremely useful in blocking customers from defecting. Customer complaints should be handled with efficiency and experts must be in charge of this. The firm's personnel should be very much approachable to clarify instructions, request further information, identify a problem, and seek a remedy. Toll free access and service desks are path–breaking efforts in this connection. Retention Rate

RFM Score, viz, Recency, Frequency and Monetary value is used to rank each customer. Customers with high scores are deemed to be most profitable and most likely to repeat a purchase and most responsive to promotions. The opposite holds good for customers with low RFM scores. It is assumed that the behavior being ranked using RFM has excellent economic value for firms. It is also related to another database marketing concept, i.e., the customer lifetime value.

The Recency of a behaviour is the single most powerful predictor of the behaviour repeating and also the response to promotion. Without Recency, Frequency and Monetary

value are much weaker indicators of customer behavior in prospect. A new scoring technique proposed by Alan Weber is doing the rounds now. It is called RFA (Recency, Frequency, Average order).

RFM Analysis

The man aspects of RFM Analysis are:

1. Identifies repeat customers;
2. Identifies and ranks 'best customers';
3. Identifies most profitable customers.

Identify a customer by card, phone number, name or other records

Refer purchasing history and buying behavior

Analyse history of prior orders

Disseminate information

Provide differential treatment

Offer distinct experiences

Reward customers

Deliver add-ons

Incentives & promotions

Address and solve problems

Bring delight
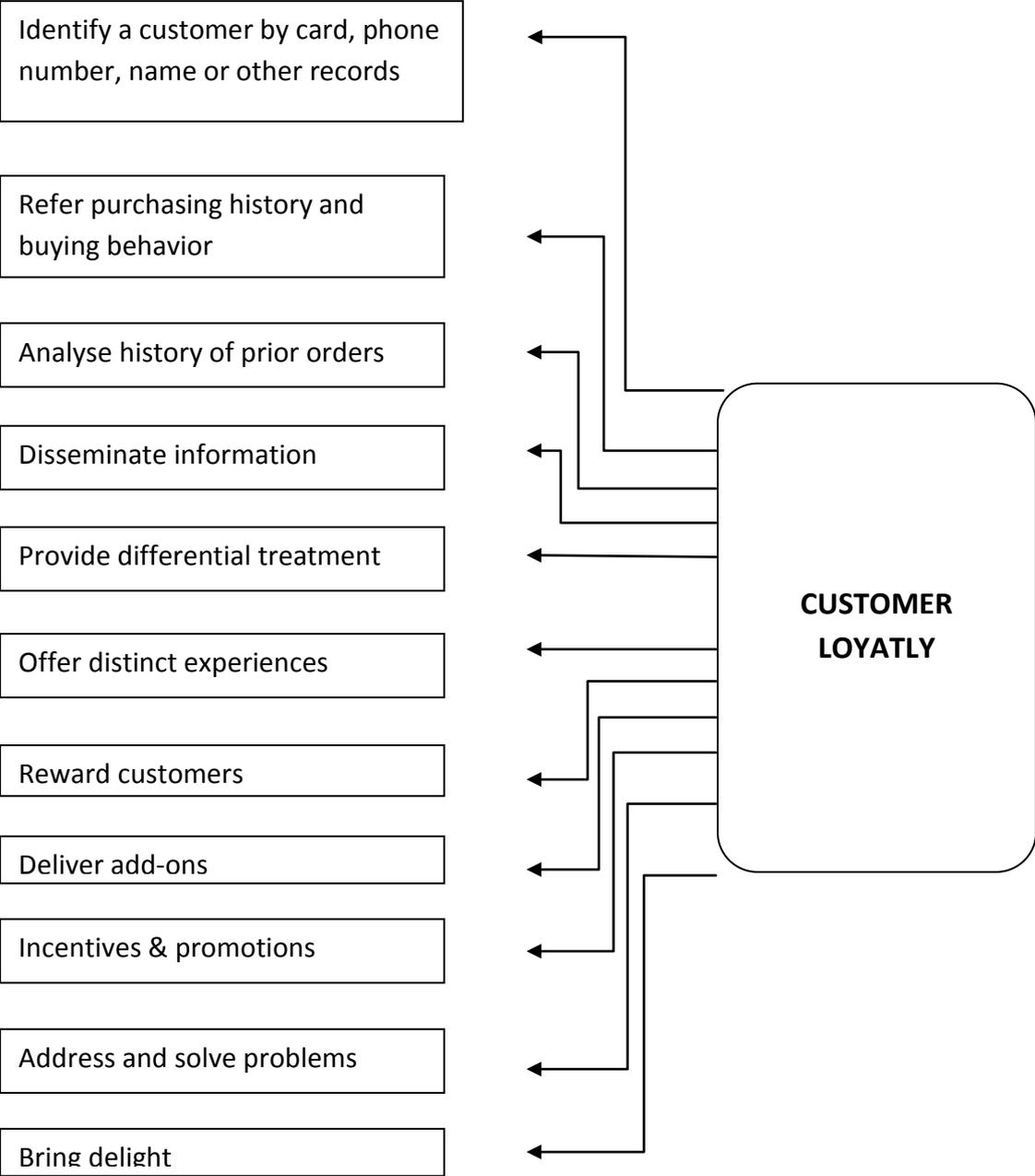
CUSTOMER LOYATLY

The Facets of Customer Loyalty

Customer Loyalty

Customer loyalty entails attracting the right customer, getting them to buy, buy often, buy in greater quantities and spread niceties about the brand (or) product (or) service through word-of–mouth. Customer loyalty may be built by constantly being in touch with customers by way of e-mails, telephone, web-interface, wishing cards, etc.

The staff team in CRM has to be motivated sufficiently and treated well so that they treat the customers well. The result is achieving loyalty of customers, customers who are looked after by firms by showing that they care, absolutely tend to be loyal.

Customer loyalty is the main objective of CRM. CRM policy highlights the loyalty which is established between a customer and companies, persons, products or brands.

Customer Loyalty and Segmentation

The cardinal rule of relationship marketing according to Philip Kotler is "to treat customers differently and appropriately". The most appropriate basis of segmentation is considered to be the loyalty of customers. The term "loyalty" has been defined differently by different firms depending on the nature of products and services.

Apart from being a reliable basis of segmentation, customer loyalty is a great source of useful data about the customers of the firm, for segmenting them, for understanding buyers behavior, and rewarding the key customers suitably.

Linkages between Loyalty and Profitability

➢ High profitability and short term customers are referred to as Butterflies.
➢ Low profitability and short term customers are referred to as Strangers.
➢ Low profitability and long-term customers are referred to as Barnacles
➢ High profitability and long-term customers are regarded as True Friends.

The key aspects involved are:

➢ **Butterflies**
  • Excellent fit between company's offerings and customer's needs
  • High profitability

- ➢ **Strangers**
  - • Minimal fit between company's offering and customer's needs
  - • Lowest profit
- ➢ Barnacles
  - • Limited fit between the company's offerings and customer's needs
  - • Low profit
- ➢ **True Friends**
  - • Excellent fit between company's offerings and customer's needs
  - • Highest profitability

Loyalty Programmes

These may be of the following types:

- ➢ Continuity Marketing Approaches which are designed for
  - a) Retaining customers
  - b) Increasing loyalty

These are essentially directed towards mass market segment and take the form of club membership (elite, exclusive, privileged, etc) and loyalty card programmes. Customers are rewarded for their buying and other dedicated behavior (such as duration of relationship / cross or up-sell purchases, etc). The focus of all these is to foster customer retention, increase loyalty, learn about each other, and enhance mutual value for a win-win situation.

Brand Loyalty

This is one of the major aspects of consumer research. Customers tend to show different levels of loyalty towards the service brand and product brand. Brand loyalty with the service is noticed to be higher as risk involved in changing the brand is higher.

The customer perceives greater risks in change of service brand. Marketers find it difficult to switch customers from one service brand to another. The cost involved in switching is also higher.

Loyal Customers and Rewards

Firms are increasingly realising the need of retaining loyal customers and are working on programmes to enable them to retain customers. The highlights of customer

retention schemes are reward for continued patronage in the form of offers, discounts, freebies, etc. Customers, today, use their discretion and wisdom to seek out the best offer. Furthermore, competitors are also waiting in the wings with different strategies to woo the customers. In this backdrop, it is rationale to offer rewards to loyal customers to prevent them from switching loyalties. Some examples of rewarding loyal customers are:

➢ Frequent Flyer Programmes for air travellers.

➢ Credit cards offering points which can be redeemed later for customers' benefits.

➢ Loyalty cards offered by automobile majors which enable them to enjoy loyalty bonus.

When the firm identifies a customer as utmost loyal over a period of time, it can cash in on the opportunity of making the customer an advocate for its product / service. Globally, affiliate marketing programmes and referral marketing are gaining grounds.

Customer Loyalty Ladder
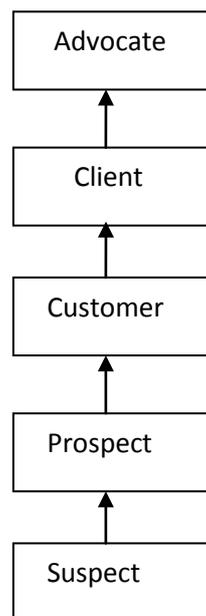
The Customer Loyalty Ladder

Suspect – Any person who reads/hears/views ads, books, brochures or other promotional material or encounters some other type of publicity is a Suspect.

Prospect – Someone who pays attention to a firm's promotional aspects.

Customer – Those who buy the firm's product / service.

Client – A customer who buys a product / service from the firm for a second time.

Advocate – A satisfied customer who gives unpaid publicity or advertising for the product / service of a business operative by spreading good opinion.

Summary

The main aim of a business organisation is to establish meaningful and long-term relationships with its customers. This lesson categorically deals with the advantages and disadvantages of CRM programmes. The advantages comprise reduction of operation cost, integration of customer information, automation of sales force, etc. The disadvantages include rigorous need for change management, inappropriate integration, etc.

This lesson has deliberated on the methods to enhance CRM while delineating the contents of CRM database. The types of customers such as Platinum, Gold, Iron, and Lead and their respective characteristics are also mentioned in this lesson.

Customer acquisition is the process of enrolling new customers for a firm or converting existing prospects into new customers. The cost of acquiring new customers is found to be more than serving existing customers. Firms are experimenting on the ways to acquire new customers by spending less on acquisition. The potential customers' quality, credit worthiness, and likely persistence are the parameters taken into account by companies.

Customer retention is at the centre of all CRM programmes. The key customers who are likely to be profitable are identified as part of the CRM initiatives and they are retained as valuable customers. Loyal customers can catapult the brand image of an organization. Organisation can profit from existing customers through customer portfolio analysis, customer retention marketing mix, and re-organisation for customer retention.

Customer loyalty is deemed to be the main objective of CRM. Loyal customers turn to be good advocates of a brand / product/service. The facets of customer loyalty are illustrated in this lesson. Moreover it is discussed here as to how customer loyalty can be the basis for segmentation. Also discussed in this lesson are the linkages between loyalty and profitability. The various loyalty programmes are also covered. This lesson concludes with a brief description about the customer loyalty ladder.

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Lesson 1. 3 - Customer Profitability and Value Modelling

Learning Objectives

- ➢ To gain a clear picture about the lifetime profitability of customers.
- ➢ To learn the dimensions of customer to lifetime value and its relation to profitability.
- ➢ To understand the essence of customer profitability.
- ➢ To study value modelling as a framework for building CRM strategy.

"Lifetime value is a powerful and meaningful tool for identifying and managing profitable customers".

Introduction

Customer profitability is essentially the difference between the revenue earned by way of customer relationship and the cost associated with it for a specific period. It deals with the company's view of the possible profit to be made from its customers.

Value modelling entails the value of the customer's other features like ability to bring in more profitable customers (by being advocates) or the potential to be a more profitable customer. The accuracy of value modelling is linked to the accuracy of customers' data.

Researchers have pointed out that by enhancing customer relationships, companies can increase profitability through lower transaction costs, up-selling, cross–selling, reduced price sensitivity, etc. It can play a crucial role in effecting this.

The lifetime value calculation looks at the customers from the dimension of their lifetime revenue or profit contribution to a firm. This concept is important when a firm plans to build long-term relationships with its customers.

Lifetime value refers to lifetime profitability; when the cost data is at the disposal of the firm. Organisations evaluate the financial value of the long-term relationship with customer in terms of the duration of an average 'lifetime', the average revenues generated during the time period under consideration (usually yearly) over the lifetime, sales of value – added services, and products during that time, and the referrals made by the customer over the lifetime.

Customers and the Essence of Lifetime Profitability

Businesses benefit a great deal by focusing on the lifetime value of a customer. Customers who remain loyal to a firm over a period of time increase their purchases and the costs of interaction and delivery reduces due to the knowledge acquired and comprehension by the customers as well as the company.

Such customers can be certainly construed as highly satisfied and they are usually inclined to refer other prospects to buy the products and services of the company thus providing free publicity and advertising through word-of-mouth. The potential for price premium with customers associated with the company for a long time is also a highlight as they do not easily switch even when less expensive alternatives are available.

Customer profitability is calculated by subtracting the servicing cost. The capacity of a customer to generate additional revenue streams underscores customer profitability. As the customer becomes familiar with the services or use of product, the requirements by way of customer support is reduced. This helps the firm save the costs. Further, most businesses encourage customers to sign up with technology such as paying bills electronically, which reduce the cost of business transactions with the customers.

When a customer is satisfied with the product quality or service offerings over a period of time, he/she is most likely to recommend them to others. Such positive word–of-mouth publicity is the most influential channel to turn prospects into customers and clients, that too virtually at no cost incurred by the firm. One of the greatest merits of calculating the lifetime value of existing customers is in assessing the potential of prospects. For example, when a bank offers educational loan to students, they are not profitable during the time of studies. Yet, if the bank pursues the transactions till they get highly paid jobs, their customer will turn out to be profitable.

Lifetime value is regarded as a strong determinant for identifying and managing profitable customers. Profit calculations require revenues as well as cost particulars. Calculating revenues gained from each customer is easy as compared to apportion of the cost to each customer. It is due to the indirect costs, also referred to as overheads. These indirect costs include everything from electricity bill, rent, insurance, etc. The traditional cost accounting methods have limitation in coming up with allocation formulas for good assimilation of indirect costs. Thus, it is difficult to identify the cost to serve a customer. Therefore, many companies subscribe to activity – based costing to approximate the cost incurred to serve a customer and identify customer profitability.

Activity – Based Costing

It is critical for any firm to have accurate and up–to–date cost information to improve its position in the market place. Activity–based costing or ABC emerged as a concept that can be used to rectify the defects in the over–generalised cost systems of the past. It is identified as a means of creating a system that finally directs an organisation's costs to the products and services that necessitated the costs. ABC is a budgeting and analysis process that evaluates overhead and operating expenses by connecting costs to customers, products, services and other relevant aspects of a firm.

It leverages relationship managers to see which customers are profitable or are to be retained as key customers. ABC measures the cost and performance of resources, activities, and cost objects. Resources are at first assigned to activities, and then activities are assigned to cost objects, based on their usage. ABC thus performs accurate cost calculation. ABC and Customer Profitability Professor Robert S. Kaplan of the Harvard Business School classified customers as high vs. low cost–to–serve customers. Managers can identify customers who show some or all of the high cost–to– serve characteristics. It is good for firms to possess high cost–to–serve customers if the firms can receive high margins from them. Similarly, a firm need not be doing well by having low cost–to-serve customers. Some of these customers demand low tariff when they get to know that their behaviour results in low cost to its supplier.

The following model classifies customers on two dimensions, viz, high cost –to-serve and low cost–to–serve

High Cost–to–Serve Customers	Low Cost–to–Serve Customers
Seek Customised products\services	Seek standard products\services
Place 0rder in minimum quantities	Place order in large quantities
Nature of orders cannot be predicted	Kind of orders are predictable
Delivery is customised	Delivery is very standard
Delivery needs change	Delivery need do not change
Manual processing	Electronic processing
High pre–sale and post– sale support	Low to no pre–sale and post – sale support
Requires firm to hold inventory	Consumed as produced
Payment is made slowly (high accounts receivables)	On–time payment (low accounts receivables)

Cost to Serve – This consists of order related costs in addition to the specific customer – centric marketing, selling, technical, and administrative expenses connected with serving each individual customers measured using an ABC customer costing model of these expenses (Ref. Fig.); Net Margin – This is commensurate to the net price, after all the sales discounts and allowances, minus manufacturing cost which is measured using ABC costing model (Ref. Fig.).

Customer Classification Using ABC

Profitablity depends on whether and how much the net product margins recover the customer specific costs.

Source: Shapiro, Rangan, Moriarty and Ross, 'Managing Customers for Profits (Not Just Sales)', Harvard Business Review, 1987.
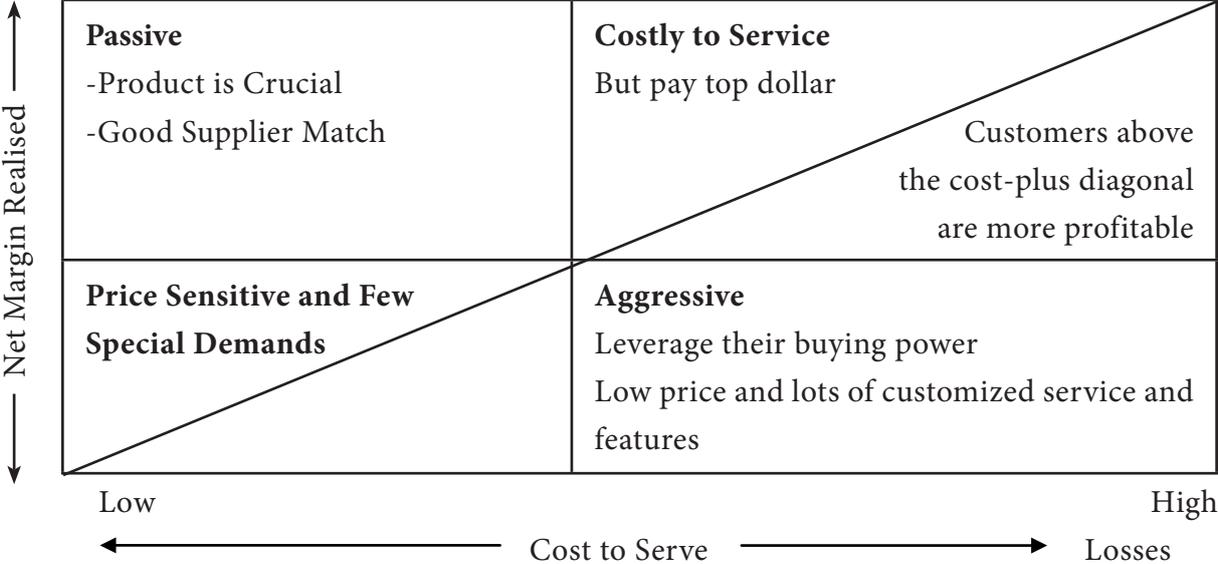
As evident in Fig., profitable customers are likely to fall in different quadrants and the profitability depends on whether and how much the net product margins recover the customer specific costs. The ideal ones are certainly in the upper left hand quadrant. These types are rarely present and should be maintained. They should be retained through effective bonding strategies as they are the prime targets for competitors.

It is a fact that price–sensitive customers having very less special demands help the firm reduces the cost–to–serve. When customers work in tandem with the suppliers or are ready to be co–creators of value, it will also help to reduce costs.

The high cost–high margin customers are also found to be profitable, as they are covering the costs to a very great extent. These customers look up to unique functions, experiences, features, benefits, and extensive support and service and pay for them.

For a firm, the most challenging customers are the low margin–high cost–to –serve customers. These include:

i. Convertibles: Some customers can be converted to profitable by identifying internal processes which may be costly and inefficient leading to high cost–to–serve by negotiating, better ordering and delivery relationships, by cutting down discounts, and by establishing prescribed tariffs for special services and features.

ii. New Customers: In the initial stage, they many not display profitable potential, but over a period of time they may do immense good for the company. Therefore, they need to be evaluated based on lifetime value potential.

iii. Strategic Customers: They are customers enhancing the image and reputation or assist supplier in learning and improving internal processes. Thus, the application of activity–based costing is found to be essential to manage customers for profits.

The Dimensions of Customer Lifetime Value and Profitability

The various dimensions of customer lifetime value and profitability are:

➢ During the customer lifetime, what share the firm has captured from the customers' purchases as opposed to its competitors.

➢ How much success the firm has registered in terms of frequency of up and cross–selling to its customers so as to increase the levels and monetary value of their purchases over time.

➢ The considerations of a firm's costs of acquiring, serving, and retaining its customers.

➢ Identifying those customers who are most profitable and focus retention efforts on them.

➢ Find more customers who match the agenda of the most profitable customers.

➢ Find which product or product combinations are contributing most to profit.

Value Modelling

Value modelling deals with the value of the customers' other features such as ability to bring in more profitable customers; the estimate of the potential shown to be more profitable customer.

Until the firm identifies and studies how much value a customer has i.e., how much combined profit a customer represents to the firm's business, for the life of the relationship, the firm will not know how much time, effort and costs it can afford to invest to recruit that customer in the first place.

The Pareto principle says, 20% of customers represent 80% of profit. This top band of 20% has used every service they could ever need and therefore giving a high return is but stopping further sales opportunities. These customers have to be retained but should not be targeted for up or cross–selling. Out of remaining 80% the bottom 20% will be yielding low-profit or they could be unprofitable customers. They are with a negative customer lifetime value (minimum sales or even stagnant interaction). This 20% drains lot of service calls wasted marketing efforts and one percent of the total profitability. Marketing to them is a sheer waste of money as the profitability of these customers' will not improve. Therefore, it is always a better proposition to devote marketing activities to the rest of 60% and budget according to potential profitability. By calculating customers' lifetime value, a firm is able to fix the budget for marketing with more accuracy ensuring that the customers most likely to bring the greatest returns receive the greatest attention.

Customer value can be categorized as actual value and potential value. Firms need to understand both these values to establish sound, long – term bonds with the customers. Customer valuation is a kind of probing the profitability of the customers in terms of generation of value. A detailed analysis of a firm's customer data is mandatory for customer valuation. If sufficient data is absent or if the data is decentralised, it will pose challenges to value modelling.

| Proxy – based | Cost | Statistics |

Customer Valuation Spectrum
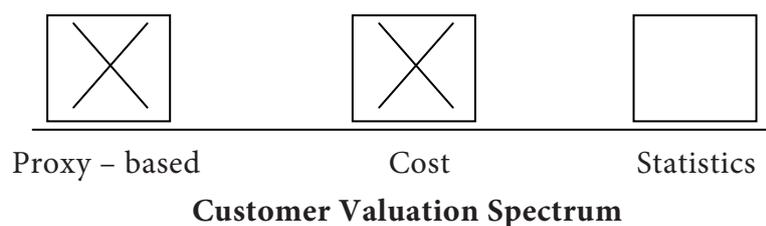
When the customer moves to the right, the analysis tends to be much more quantitatively challenging, culminating in a lifetime value model, which is based on statistical estimation.

a) **Proxy–based analysis** – This is an analysis based on a group of simple variables, such as the Recency, Frequency, Monetary Value model (explained in the previous lesson) and often employed by database and direct marketers.

b) **Costs–based analysis** – This is a quantitative analysis based on revenue, and in most cases, cost information at the individual customer level. Discounted cash flow or other spread sheet models are often used. This analysis is mostly used in service industries like hospitality and some B_2B.

c) **Statistical analysis** – This works on the proxy–based and costs–based analysis. While calculating discounted cash flows, assumptions are made about the length of a customers' relationship and future growth. Statistical analysis envisages a more rigorous analysis behind these assumptions, such as calculating the probability to purchase. Variables adopted with proxy–based analysis could be used in this estimation. Credit card companies and telecommunication networks with millions of customers often use this.

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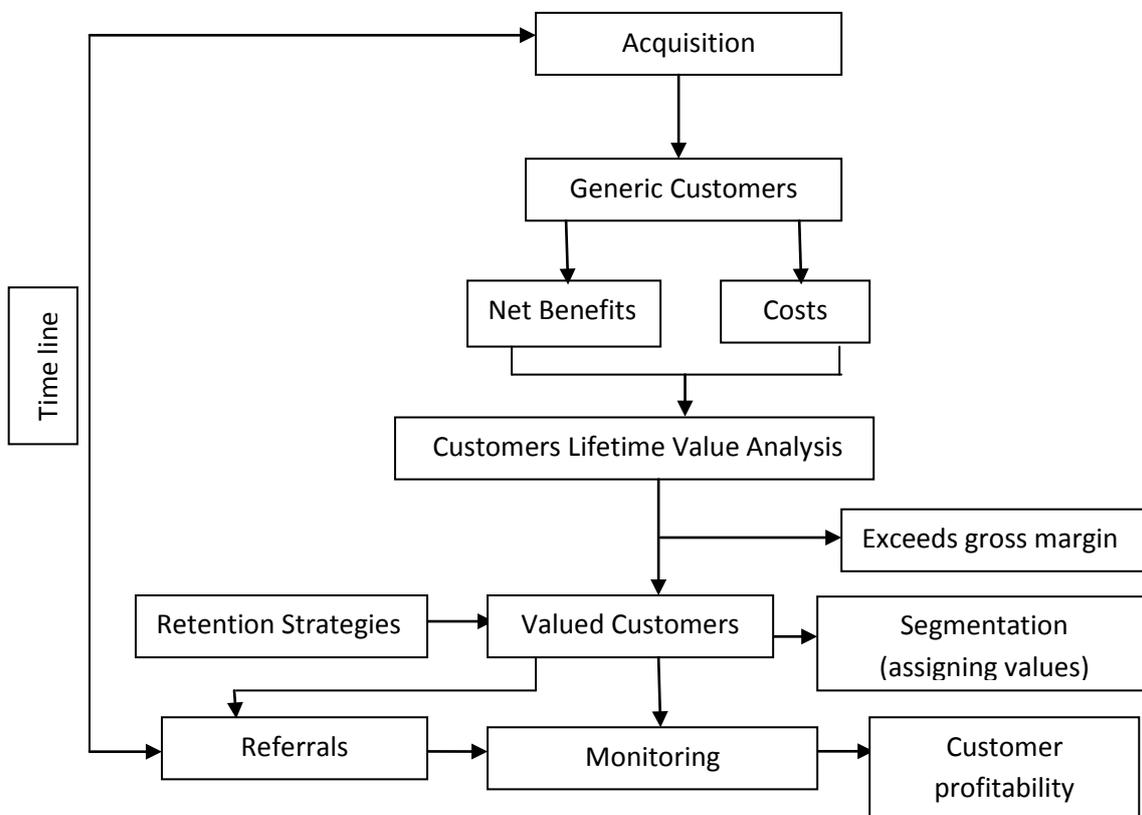
The Dynamics of Value Modelling

In which position the firm falls on the customer valuation spectrum depends on its present and future business needs, the application of the results (on taking customer action) and accessibility to data. Once the firm has prioritized its customers by their actual and potential values, it must re-design its own service offerings to align itself with the different needs of its different types of customers. Further, it has to provide integrated, well developed business solutions to deal with the problems of its customers. This, in turn, makes the company to improve its technical and business competence of its sales force and

re–align its sales and marketing structure with the new measure of customer valuation. When a small percentage of clients have a lion's share of potential value, firms want to develop relationships with them, enhance their value, and retain them for as long a time as possible.

Value modelling technique is about coming up with clearer pictures of micro segments after analysing thoroughly the internal and external customer data. Value modelling provides a clear frame work for more in–depth segmentation by assigning values based on the profitability of customers dotting those segments.

Value modelling provides the firm a strong sense of where it needs to improve its management of the lower profitability segments or determine the steps it can take to evolve the loss–makers or profit–neutral clients so that they generate value.

Summary

Customers tend to become profitable with time because the initial acquisition cost exceeds gross margin and at the same time retention costs are minimum. When a firm retains a customer, it gets a bigger share of the customer's contribution at a higher profit. Customer profitability is determined by estimating the difference between the revenue earned by way of CRM initiatives to customers and the cost–to–serve those customers.

Value modelling enables a firm to have a clear understanding of the productivity of customers and chalk out effective strategies to elevate less– profitable customers to be active contributors for the firm. Value modelling gives proper direction to relationship marketing.

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Lesson 1. 4 - **Customer Satisfaction Measurement, Feedback and Service Recovery**

Learning Objectives

- ➢ To examine the issues of high quality customer service.
- ➢ To learn the dimensions of customer satisfaction.
- ➢ To familiarize with the measurement of customer satisfaction.
- ➢ To understand the importance of customer feedback.
- ➢ To acquaint with the perspectives of service recovery.

"Customer satisfaction is the driving force that catapults the brand image of organisations and serves to develop long-term bonds with customers".

Introduction

Identification of customer tastes and preferences and fulfilling them up to his\her expectations or exceeding it by offering delightful service experiences is at the heart of the concept of customer satisfaction. The core measures of customer satisfaction are feedback and the effectiveness of the mechanisms dedicated to address customer complaints and requirements. Customer feedback can help operatives identify the problem area, strengths, challenges, and opportunities and generate ideas for service improvements.

The customer feedback collection tools can be generally categorized as active and passive feedback. They are also called solicited and unsolicited feedback.

As highlighted in the earlier lessons, knowing the customer well is of primary importance for any CRM programme. Customer needs, wants, interests, buying motives, etc have to be understood comprehensively by business firms. Customer satisfaction measurement also entails measuring service performance of companies. The methods of customer satisfaction comprise direct method, feedback collection through third party, agencies\survey companies, and direct marketing centres.

In almost all the service contexts, service failure is inevitable. Service failure occurs when service performance falls below customer expectations due to errors during service en-counters\delivery in such a way that leads to customer dissatisfaction. Service recovery refers to actions taken by a firm in response to service failure. The service recovery strategy encom-

passes fixing the problem to cultivating relationship with customers. Creating a good service recovery environment is crucial for the customer relationship managers of a company.

Customer Satisfaction

The aim of CRM programmes designed by firms is to retain the right customers and a vital determinant of customer retention is customer satisfaction. The idea behind this is to ensure that customers are utmost satisfied and are more than willing to offer their continued patronage. Customers analyse the value they expect from a product before making the purchase decision. Post–purchase, customers evaluate the outcome, i.e, whether the product has delivered value as per their expectations or not. If the promise of the firm in terms of product quality\service delivery along with customers' expectation of value as of pre – purchase is matching with the fulfillment of promise and in terms of firms' offerings, it can be definitely construed that the customers are satisfied.

The expectations that customers have from the product\service are created through the following channels:

a) The experiences that customers have encountered with the product\service in the past result in the creation of certain expectations. These past experiences may be deducted as benchmarks by customers to evaluate satisfaction. When the actual experience does not match the expectations drawn, the customer in left dissatisfied.

b) Promotional Agenda - From the promises and claims made by the marketers of a firm; customers form expectations. Making exaggerated claims for promotions could be counterproductive as customers are likely to form high expectations and the result may be disastrous.

c) Third party Inputs – Customers also form expectations based on information they get from other parties. There could be friends, relatives, referrals, experts, opinion leaders, etc, who may encourage a product purchase by lauding its virtues. Based on their dissemination of information, customer forms expectations regarding the product and evaluate the satisfaction based on its performance.

d) Media Communication – Media, in the modern day, is responsible for creating expectations in the minds of the potential purchasers of a product. Both print and electronic media are largely responsible for expectations based on the ways in which they showcase a product. Media rely on brand ambassadors and famous personalities to endorse products which have a massive impact on purchase decisions. In this context, marketers must ensure that the expectations are 100% met by the products, and the outcome is of high satisfaction to the customers.

Challenges in Customer Satisfaction

1. Expectations that different customers have about the same product – It is always a challenge for the marketers to the meet the expectations that various customers may form about the same product.

2. Unique expectations of individual Customers – Marketers deem it a challenge to fulfill the unique expectation of individual customers as they have to carefully initiate and offer tailored products to meet individual requirements.

3. Different parameters that determine customer satisfaction – Studies point out that for some customers, fulfillment of the expectations they had from the offering make them satisfied; while for certain others satisfaction is transaction specific, i.e., the customers' post–choice evaluation and judgment of a particular service encounter. On the other hand, there are customers' whose satisfaction is in tune with the total evaluation of the assimilated customer experiences with the company.

4. The level of satisfaction with the same customer and the same product is inconsistent.

The Impacts of CRM on Customer Satisfaction

According to Mithas et' al (2005), CRM applications are likely to impact customer satisfaction due to the following reasons:

a) CRM applications enable companies to customize their offering for customers and thus the perceived value get enhanced. Perceived value is tallied with perceived quality by customers and due to this, customer satisfaction is enhanced.

b) CRM initiatives enable companies to enhance the reliability of consumption experiences by ensuring timely dealing of various customer requests. The IT tools can be incorporated.

c) CRM programmes also enable firms to manage relationships across the various stages like initiation, maintenance and termination and thus aid greatly to impact on customer satisfaction.

To meet customer expectation and thereby ensure satisfaction, firms' need to understand clearly the expectations that customers form when they buy products\services.

The key questions the firms ought to consider in this regard are:

➤ What is the exact need and preference that the customer wants to be fulfilled through the product?

- Is the product feature(s) matching with customer requirements?

- To what extent the product may be personalized?

- What is the customer's expectation of value–for–money?

- Any additional expectations the customer bear in mind while making the purchase (such as time of delivery, channel of delivery, comforts, etc.)?

- In which lifecycle stage customer is in now?

- What are the expectations customers may develop in the future?

- What are the customer's expectation with respect to after sales service, upgradations, credit, exchange schemes, etc?

Gustafsson et' al. (2005) carried out research on customer satisfaction and relationship commitment and has mentioned the following points with regard to the implications for CRM:

- CRM managers should include both overall evaluations of performance (e.g.:- customer satisfaction) and the viability of competitive offerings (e.g.:- calculative commitment) in periodic surveys used to predict retention.

- Heterogeneity in the satisfaction-retention relationship needs to be controlled by considering prior data processing in the analysis.

Importance of Customer Satisfaction

- Customer Satisfaction leads to growth of business and survival.
- Satisfied customers remain loyal to the firm.
- They buy in larger quantities and more frequently.
- They tell other people about their experiences.
- They trust the firm and consider it a privilege to do business.

Customer Satisfaction Programme

a. **Selection of Interviewees (customers)** - For an effective customer satisfaction programme, it is imperative that right persons are selected to ask the right questions. The traditional first-in-line customer is an obvious choice for measuring customer satisfaction. A good customer satisfaction programme will include both the wholesalers as well as the final consumers.
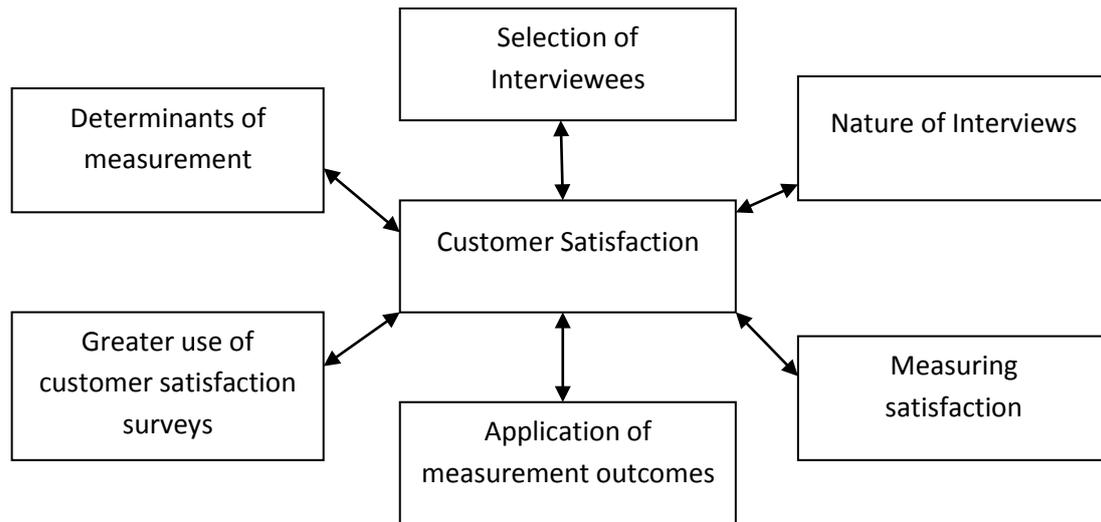
Customer Satisfaction Programme

b. **Determinants of Measurement** – The main focus of customer satisfaction survey is to probe from the customer how he considers the product\service of the firm. The respondents' view will provide ample insights on how the product\service may be improved. High level issues are dealt with in most customer satisfaction surveys such as the overall satisfaction; repeat purchase; referrals, etc.

The variables are churned and presented to the customers to determine how they find its value as regards the product performance. The questions can be framed by looking at the transactions from the customers' point of view.

The determinants of measurement vary from firm to firm and could include:

➢ Product Features
➢ Product Benefits
➢ Consistency of Quality
➢ Product Lifespan
➢ Product Range
➢ Product Design
➢ Delivery Time
➢ Cost of Delivery
➢ Channels of Delivery
➢ Product Performance
➢ Utilities

- ➢ Service Requirement
- ➢ After Sales Service
- ➢ Replacements
- ➢ Credits
- ➢ Upgradation
- ➢ Staff Professionalism
- ➢ Smooth Interaction
- ➢ Ethical Conduct
- ➢ Dissemination of Information
- ➢ Market Price
- ➢ Value for Money
- ➢ Add-ons

c. **Nature of interviews** – Delphi Technique (expert opinion) and focus group interviews can provide useful insights on customer satisfaction.

As it does not provide bench mark data; a quantitative survey can also be conducted. The tools for measuring customer satisfaction can be combined, like a self–completion method and could be used in a face – to – face interview; a postal questionnaire may be preceeded by a telephone interview for collecting data. Sometimes the interviews may be conducted anonymously - without disclosing the identity of the interviewer to avoid bias.

d. **Measuring satisfaction**- Customers express their satisfaction in various ways. Some express it in monosyllables or anecdotes – a word of appreciation, while some don't express anything; but come back again and again. When satisfaction is rated in numerical scores in terms of the anchors of scale – the expressions becomes clear. Typically, a scale of 1 to 5 is used where the lowest figure indicates extreme dissatisfaction and the highest shows extreme satisfaction.

Equally important is the need to determine customers' expectations or the value they attach to the different attributes of the product or service. Otherwise, the firm could run the risk of allocating resources for raising the satisfaction level for things that do not matter.

Based on various interview methods and the determination of scores, firms can statistically calculate the levels of satisfaction for individual customers. Derived importance is approximated by correlating the satisfaction levels of each variable with the overall level of satisfaction. When there is a high correlation with a variable, it can be deducted that

the particular variable is profoundly influencing customer satisfaction. Subtle issues such as courtesy and hospitality of staff can be assessed by deriving the importance of variables chosen as having value by the firm. Thus, a rational understanding of the impact of such variables can be formed.
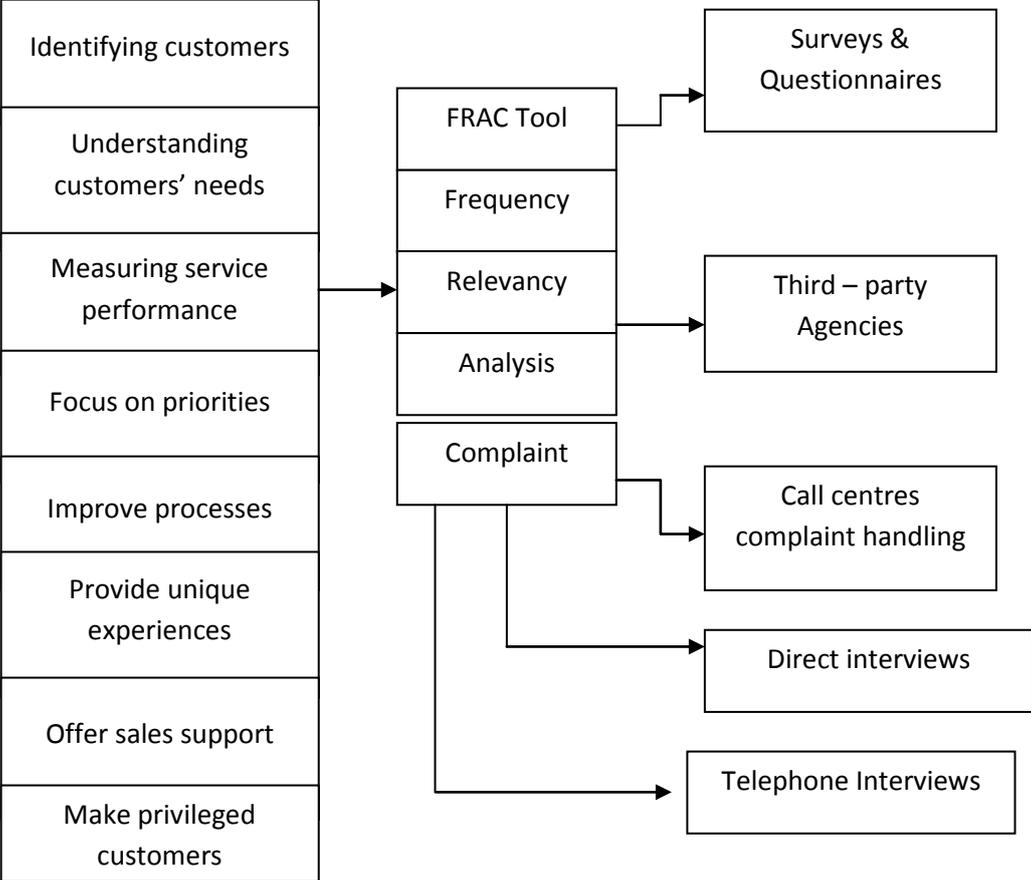
Measuring Customer Satisfaction

e. **Application of Measurement Outcomes**- Customer satisfaction surveys are analysed to create a customer satisfaction index or CSI by tabulating the scores. Some firms use the rating given to the overall performance to create CSI while others use an average of the two significant measurements, viz, overall performance and repeat purchase decision (towards loyalty). There is no definitive ambit for CSI as two firms may consider a wider coverage of issues to create a CSI.

The average or mean score of satisfaction given to each variable forms a table of strengths and weaknesses. Scale values from 1 to 10 indicate the levels of satisfaction which is based on the interpretations of customer satisfaction surveys (1 indicates lowest value in CSI). The mean scores of 8/10 indicates market leadership or top brand; 7-8/10 reflects fine performance with more attention required; mean scores of below 7/10 is taken as requiring intense care.

Some measurement outcomes like 4-5/5 considered to be 'top-box' responses stands for excellent or very good ratings. It firms fail to achieve high ratings, customers are likely to defect and will discontinue their relationships.

A CSI matters during a given time line. Customers' outlook change continuously as does the firms' performance in delivering customer satisfaction. Measuring satisfaction must be made a regular process. The timely measurements of competitive companies pave the way for measurements of relative performance. Therefore, it is essential for a firm to design unique measurement tools and analytical methods. The sample size, too, must be large enough and the sample needs to be carefully chosen.

f. **Greater use of customer satisfaction surveys** - The role of top management of a firm is crucial in satisfying its customers. The policies of the firm must be customer oriented owing to the patronisations of the top level policy makers. It is often said that "happy and satisfied employees make happy and satisfied customers'. Therefore, employee satisfaction is one aspect which should dot a significant place in the company policy. Employee outlook and attitude surveys can bridge the gap, if any, that exists between employees' perceptions of performance and those of customers.

It is found that customers often co-operate actively in surveys because they believe that their problems will be duly addressed and rectified through corrective actions made by the firm. Moreover, their expectations are also raised. This necessitates prompt action by managements on the survey results. When the scores are low, firms must pay more attention to the issues that surface from the interpretations. They must form cross–functional teams to develop and implement action plans. Different groups of employees must be made to involve in the whole process. The survey results should be discussed with the groups. Action plans must be framed with the participation of the groups. If change management is found to be essential for customer satisfaction, firms must resort to that with the holistic participation of all employees. Employees must be trained to handle customer service issues. The action plan must be subjected to periodic reviews.

Customer Delight

Having delighted customers is a glorious proposition for any business operative. When a customer receives more than what he\she expected, it leads to customer delight. Certain ways by which customers can be delighted are:

➢ Attach attributes that customers value more.
➢ Offer attributes at a low cost.

- Differentiate the product\experience.
- Provide cherishable, joyful, and memorable experiences, termed 'moments of truth'.
- Focus on each and every service encounter.
- Thinking out-of the-box in delivering offerings and fulfilling wishes of customers.

Customer Feedback

Customer feedback helps the firm immensely in identifying problem areas, strengths, opportunities, and threats whereby it can generate ideas for improving service delivery.

Customer feedback collection tools are generally categorized into two types; a) Active and b) Passive. They are also called solicited and unsolicited feedback. Active feedback is collected through questionnaires and surveys. Directly contacting customers and getting their valuable feedback is very important for the company. It must be ensured that the feedback is obtained without any bias. Sometimes feedback is obtained through consultancy agencies, survey organisations, market research firms, etc. Direct marketing, in-house call centres, complaint handling wings, etc, are the first contact points for getting customer feedback. Companies need to lend an active ear to customers' feedback. To top that, they should act immediately by making a report which will contain data on the products or areas where customers are dissatisfied. Organisations must strive to reduce negative feedback and create a boom in repeat business.

Service Recovery
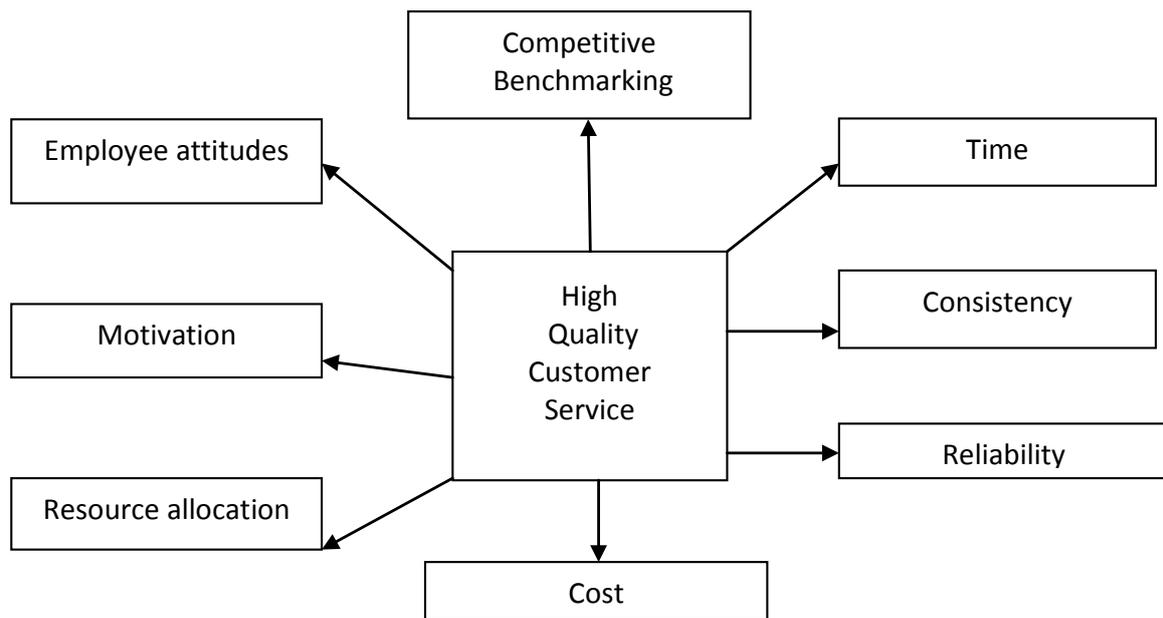
Issues of High Quality Customer Service

Service recovery refers to the actions or corrective measures taken by an organization in response to service failures. A service failure occurs when service performance takes a dip below the customers' expectations in such a way that it leads to customer dissatisfaction.

Services are heterogeneous in nature and therefore the chances of firms committing mistakes or errors during the encounters or in the delivery mechanism are very high. In the circumstances, when firms cannot avoid service failures, they can be equipped to recover from problems.

The timely rectification or solution to a specific service problem can fetch the firm loyal customers. This is because customers tend to develop trust towards a customer oriented business and do not defect. To retrieve the troubled customer, firms have to chip in with that extra bit of effort and should not mind in stretching themselves to find appropriate solutions, that too on time.

Service firms must consider the unavoidable mistakes that occur as opportunities to reinforce the bond with customers. They must tap the opportunities through effective service recovery. By doing so, firms increase their good will and win customers hearts.

As companies cannot afford to lose customers for the simple reason that it costs more to replace an old customer with a new one, retaining existing customers by quick and efficient service recovery is very important. Furthermore, service recovery must be made an integral part of the operations of a firm.

Dimensions of service recovery variations are bound to happen in service quality. Maintaining zero errors is a tough task and almost impossible in spite of rigorous mechanisms, training, use of hi-fi technologies and constant quality checks. There are other factors such as adverse weather conditions and natural calamities which are beyond the control of the organisation. Avoidance of negative reaction to a service failure is the first lesson in service recovery.

The crisis managers of a company should realize that 'every problem comes with an opportunity and there is always an alternative solution which can be brought out through lateral approaches'. Not only the crisis managers but all the employees of a firm must be fully equipped and empowered to fix any problem of customers. Employees must be encouraged to use their discretion for finding appropriate corrective measures to solve customer problems.

The Process of Creating Effective Service Recovery Environment

- Identify the failure spots.

- Going extra miles to cover all the costs a service disaster incurs.

- Compensating the customer when required.

- Express regret and promise follow-up actions.

- Appreciate inputs from customers in fixing a problem.

- Encourage the customers to raise any kind of problem by creating a conducive environment.

- Customers must be made known where they should lodge a complaint.

- Customer suggestion boxes need to be monitored continuously.

- Firms must not sit on customers' complaints; must take affirmative action.

- Anticipate potential failures.

- Allocate resources in advance to deal with potential trouble spots.

- Train staff to handle problem prone area.

- When the problem recurs or persists, a thorough service re-engineering\redesign may be considered.

- Service recovery actions have to be prompt and fast.

- The philosophy behind service recovery is 'a stitch in time saves nine'.

- Irate customers should be handled with tact and the transactions must not be allowed to worsen.

- Improvise wherever required.

- Good service recovery initiatives must be duly recognized and appreciated.

- Acknowledge the customers support in service recoveries as they have helped in enhancing service delivery mechanism.

- If a problem cannot be fixed, customers should be clearly briefed as to why it could not be done.

- Tell customers that their suggestions were implemented.

- Excellent service recovery is an outcome of foresight, knowledge, management skills, and technical know-how of the employees of a firm.

Service Recovery Strategy

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┌─────────────────────────────────┐
│         Fix the Customer        │
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                 │
                 ▼
┌─────────────────────────────────┐
│          Fix the problem        │
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┌─────────────────────────────────┐
│          Respond swiftly        │
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                 ▼
┌─────────────────────────────────┐
│        Communicate clearly      │
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│        Treat customers well     │
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│         Cultivate long-term     │
│    relationship with customers  │
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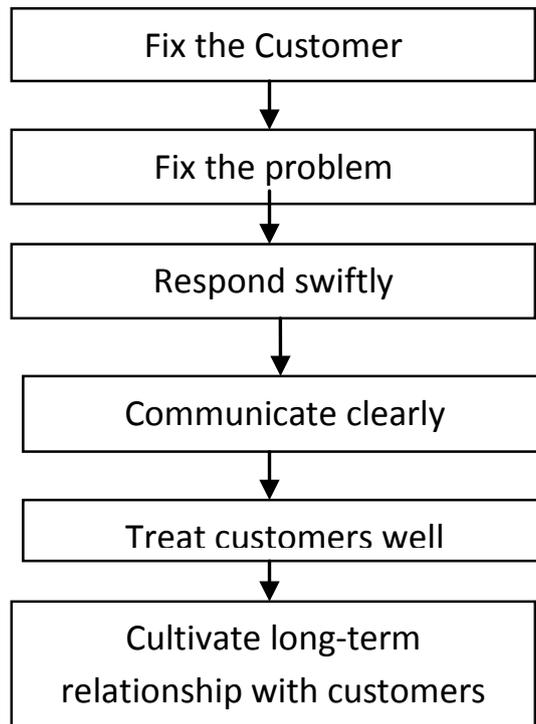
Service Recovery Strategy Model

a. **Fix the customers** – Customers sometimes may not complain as they would have fixed high expectations. They expect the company to respond quickly and be responsible and accountable. Customers may also expect due compensation for the service failures. Furthermore, they expect the firm to be treat them nicely in the service recovery process.

b. **Fix the problem** – After fixing the customers, the firm must promptly address the actual problem that created the service failure. If the problem is recurring with other customers, the firm must fix the service delivery process too. Strategies for fixing the problems include encouraging and tracking the complaints, learning from recovery experiences, learning from lost customers, and making the service fair.

The Kinds of Fairness

i) Outcome fairness – Service outcomes must match delivery expectations and if there is a gap, customer may complain.

ii) Interaction fairness – Customer need to be treated politely and sincerely.

iii) Procedural fairness –This entails treating the customer according to rules \ procedures \ terms and conditions \ policies.

Summary

Satisfied customers are the most important assets for any organisation. Currently, companies are striving to offer products and services that exceed customer expectations, thereby delighting them. Moreover, companies must appreciate and implement suggestions given by customers through feedback. The complaints raised by customers need to be dealt with promptly and quickly. Customer satisfaction reduces the attrition rate of a company to a great extent. Satisfied customers offer continued patronage.

The cardinal principle behind customer satisfaction is that there should not be any gap between expectations of service\product and service delivery outcomes or experiences with the product. Companies should ensure that the promises are kept by all ways and means. Customers will form expectations based on previous experience, promotional agenda, third party inputs, and media communication. Customer satisfaction may sometimes seem to be an elusive concept as there are different parameters that determine customer satisfaction. Further, the level of satisfaction with the same customer and the same product is inconsistent.

Firms use various tools to collect feedback from customers so as to measure customer satisfaction. Based on various interviews through surveys, questionnaires, direct interviews, telephone interviews, focus group interviews, third party agencies, etc, inputs are gathered and henceforth scores are determined. Furthermore, firms proceed to statistically calculate levels of satisfaction for individual customers. Derived importance is equated by correlating the satisfaction levels of each variable identified by the firm as having profound impact with the overall level of satisfaction. Thus, which variable and to what extent it influences customer satisfaction can be estimated.

Customer feedback always aids the organization to move forward more efficiently by improving their service quality. It can generate ideas for service delivery. Companies must be intense listeners of both active and passive customer feedback collection tools. They must try their best in incorporating customer feedback in an accountable and responsible manner.

Service failures many a time are unavoidable. Effective service recovery mechanisms can put the firm back in track and also strengthen its relationships with customers. It is all about how the firm takes corrective steps to respond to service failures. The process of creating effective service recovery environment and service recovery strategies are dealt with in this lesson.

Self Assessment Questions

1. What do you mean by Customer Relationship Management?
2. Elucidate the concept of CRM.
3. With the aid of a figure explain the CRM Model.
4. Explain the need for CRM in tourism.
5. What are the benefits of CRM for tourism businesses?
6. Illustrate the process of CRM in tourism industry.
7. What are the benefits of CRM for tourists?
8. Outline and explain the phases of CRM in tourism.
9. Discuss the CRM programmes in hospitality industry.
10. Describe the practices of CRM in aviation.
11. Discuss the dynamics of professionalism for better CRM in tourism.
12. Explain the advantages of CRM.
13. State the disadvantages of CRM.
14. Discuss the steps to enhance CRM functions.
15. Bring out the contents of CRM database.
16. Explain the types of customers and their characteristics.
17. What is customer acquisition?
18. Examine the cost of customer acquisition.
19. What is customer retention?
20. Explain the aspects involved in customer portfolio analysis.
21. Describe the elements of customer retention marketing mix.
22. What is RFM?
23. What is customer loyalty?
24. Illustrate the facets of customer loyalty.
25. Justify why customer loyalty should be a basis for segmentation.
26. Establish the linkages between loyalty and profitability.
27. What do you mean by loyalty programmes. Give examples.
28. Explain the customer loyalty ladder.
29. What is customer profitability?
30. Elucidate the relationship between customer lifetime value and profitability?
31. Explain how customer profitability is calculated?
32. What is activity–based costing?

33. How does a firm use ABC to analyse customer profitability?

34. What do you understand by

35. Cost –to–serve

36. Net margin

37. Outline and explain the types of low margin–high cost–to–serve customers.

38. Examine the dimensions of customer lifetime value and profitability.

39. What is value modelling?

40. Explain customer valuation spectrum.

41. Bring out the significance of value modelling for CRM initiatives.

42. Define Customer satisfaction.

43. Explain the channels which develop customer expectations.

44. Elucidate the challenges in customer satisfaction.

45. Examine the impact of CRM on customer satisfaction.

46. Discuss the aspects involved in the customer satisfaction programme.

47. Explain the process of measuring customer satisfaction.

48. How can the firm apply the customer satisfaction measurement outcome?

49. What is customer delight?

50. Explain the significance of obtaining feedback from customers.

51. What is service recovery?

52. Outline and explain the dimensions of service recovery.

53. Describe the process of creating effective service recovery environment.

54. Illustrate the service recovery strategies.

55. Explain the kinds of fairness

CASE-STUDY

Hi!Tours– Customer Focused Initiatives by Offering Higher Value and Satisfaction

Hi!Tours is a leading tour operator company having 15 years of standing in the industry with a pan–Indian presence. It started on a small vein with the name Nomad Excursion in 1997; when it was registered as a tour company. Now, Hi!Tours has offices in different parts of India. The Corporate Head Quarters is in New Delhi and branch offices are located in Chennai, Cochin, Mammallapuram, Udaipur and Varanasi. The company has overseas Offices in UK, Ireland, France, Spain, Italy, and Argentina.

Hi!Tours have a comprehensive network of highly qualified local agents across the sub continent offering customer value–driven ground operations with great efficiency. The company has a dedicated destination management and conference management division providing all services including conference and event planning, event management, event marketing, and association management services. Hi!Tours has tie –ups with various chambers of commerce, government and semi – government trade bodies and national tourism organisations. Over the last decade, The company has made it big by developing a grand reputation within the industry for impeccable execution of events and having meticulously handled conferences all over India and abroad.

Hi!Tours offer a wide range of holidays to India, Sri Lanka, Nepal, Bangladesh and Bhutan. They have designed private and personalized journeys and an array of tailored services to fit customer tastes and preferences. Hi!Tours have service operations with great quality in the areas such as:

a) FIT\Individual tours – they offer a made range of holiday packages, excursions, private tours for individual travellers, etc, keeping in mind their interest of travel, duration of tours, client privacy and safety, and all at a genuine price.

b) Group Tours- fully escorted trips to provide customers the luxury of having a relaxed holiday without having to worry about check–ins, flight confirmations, etc. The company has an experienced local person at hand at all times to ensure a highly involving journey.

c) unitIncentive Holidays – these are highly sought after by customers owing to its special itineraries.

d) Conferences and Meetings – they are handled with great efficiency and skill by attending to every minute requirement from accommodation to transportation, publicity to delegate kits, and from entertainment to security.

e) Cars & Coaches – the company has one of the largest fleets in India which include deluxe air conditioned buses, tempo traveler, mini buses for groups ranging from 4 to 45, MUV's and all kinds of medium and luxury cars.

f) Bookings for luxury training – provide luxury tour experiences.

Hi! Tours has opened a separate and full scale outbound tours division. It offers complete range of travel services and customized travel arrangements to more than 85 countries in the world. There is a team of dedicated professionals and global network of partner companies. Instant online ticketing is available for hotels, airlines, rail, and ground services. The company is equipped to cater to all possible travel needs of business and

leisure travelers. Hi!Tours have been undertaking path–breaking initiatives to reach out to the travelers through innovative products. They have a dedicated business travel team focusing on MICE.

Hi!Tours have launched separate departments catering to India Holidays from cultural to pilgrim, from wildlife holidays to honey moon from weekend getaways to customized FIT tours. Homestay is another initiative which offers an exclusive collection of unique and charming homes for the guests to stay and unwind. The tour company has also logged in to volunteer tourism–vacationing to help the needy. It is for those who are interested in mixing travel with philanthropic activities. Hi!Tours take tourists to study the UNESCO monuments, trips to backwaters, community development project works, or even help clean National Parks.

The company creates opportunities for customers to have firsthand experience of local culture. Hi!Tours also have a special in house department of forex for taking care of foreign currency requirement of customers, and also destination guides, a space in the website on 'What Customers Say?', flight searches in website for cheap and low airline fares, and special offers for international and domestic holidays.

Questions

1. Bring out the customer focused initiatives of Hi!Tours.
2. Discuss the ways and means by which Hi!Tours ensures customer satisfaction.
3. Give an account of 'customer value' services dished out by Hi!Tours.

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UNIT - II

Unit Structure

Lesson 2. 1 - Customer Data- Processing, Management and Applications

Lesson 2.2 - Data Warehousing and Data Mining

Lesson 2.3 - Data Analysis in CRM- Perspectives and Methodologies

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Lesson 2.1 - Customer Data - Processing, Management and Applications

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Learning Objectives

➢ To learn the intricacies of data processing.

➢ To familiarize with the data management practices and sharing of data.

➢ To acquaint with the customer information databases.

➢ To comprehend the importance of ethics and legalilities of data use.

Introduction

Customer Relationship Management (CRM) is essentially 'data driven'. Analysis of customer data allows companies to grow through established customer relationships. Customer valuation requires a detailed analysis of a company's customer data. This is a daunting task as the data can be decentralized or sometimes lacking. Organisations need certain kind of data in order to satisfy their customers' needs, wants, and desires and to formulate high–impact marketing programmes. Customer data is indeed the backbone of a firm's progressive marketing strategy.

It contains particulars about:

a) Target market- the best target market for the products or services being offered by the firm.

b) Product / Service quality – how satisfied or dissatisfied is the target market with the performance or delivery of products and services.

c) Comparative advantage and Competitive advantage – comparing the firm's products / services with those offered by the competitors.

d) Price – the value placed by the customers on the products / services in sync with the features or benefits they receive.

e) Distribution channels - the distribution channels most likely to be used by the target market.

f) Promotion – the communication channel, tagline, and endorsements that will appeal to the target customers.

Customer data analysis helps managers in appropriate decision making as to the right time to launch a product, pricing strategies, choosing media for promotion, etc. Data is collected from the field and from secondary sources.

Relevancy is very important when details of customers are culled from a database. The interests of the customers have to be taken into account while processing the data. Generation of a qualified database is very essential for campaign management. While sending offers to prospective customers, a database which is comprehensively prepared can do a world of good.

To ensure that customer needs are met in a befitting manner, CRM makes use of cross– selling and up-selling. Cross–selling refers to a firm's strategy of selling a related or different product/service as a result of another purchase made by the customers.

Up- selling is about selling a superior product / service to customers when they have reached a saturation stage in terms of experience and may be ready for upgradation. For cross-selling and up-selling to be effective, the database must be a well qualified one.

This lesson deals with the management issues in using and sharing customer data. The significance of customer information databases and the concern over ethics and legalities in data use are also discussed.

Data Capturing and Processing

Capturing the right data is an important function of CRM. Authentic data with lucid characteristics have to be gathered from the right sources. The challenge in this context is that data is usually captured in diverse formats. The various formats of data generated could be:

- Oral communications
- E-mail interactions
- Online transactions
- Telephonic conversations
- Written communication

Thus, it is quite evident that the data sources could generate varied formats of data. E-mail and online transactions may be conveniently captured as they follow structured process. The data that may be captured must be genuine and error free. Therefore, it is imperative that data accuracy is ensured.

The data has to be validated at the time of capturing as a cautionary measure. Errors have to be spotted meticulously and eliminated. The accurate data that have been captured needs to be incorporated into a database and processed. In this connection, databases having proper design and structure needs to be created. Such databases should be user-friendly and should be able to support the ever increasing number of users having interface with the database. The time spend by the users should not exceed the expected limits for transactions. Moreover, care must be taken not to lose any data during the transaction process.

As the customer base tends to expand, the selection and design of database should be in tune with the future applications to be made by the company. This may necessitate more IT applications and programmes. Therefore, the database should be of a scalable property.

Another consideration here is that the database needs to be designed by companies in such a way that it is secure and will not be misused or hacked. Data security must be ensured. The data sourcing and dissemination procedures are very significant in data processing. The outputs desired from the system must be duly considered while planning the IT applications. The additional information solicited by the users also needs to be addressed. Some of the expected outputs generated by the data processing unit are:

a) Customer segmentations – buying behavior, demographic and psychographic profile,

b) Inclination to accept offers and incentives- responses exhibited by customers towards acceptance of offers, and

c) Customer Choke Zones- this can be determined on the basis of the complaints lodged by customers and their feedback on various issues such as service quality. The

customer choke zones may be identified through data analysis. It helps companies to prioritize the gravity of shortfalls and rectify them.

The company executives and sales staff must be able to access customer information generated accurately and in a timely fashion round-the-clock at any place, through their mobile phones and laptops. The outputs available to them must be current.

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          Data          Data Capturing      Data      Processed and      Outputs
Inputs    Source        and assimilation    base      assimilated data   for users
          s
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Data Capturing and Processing
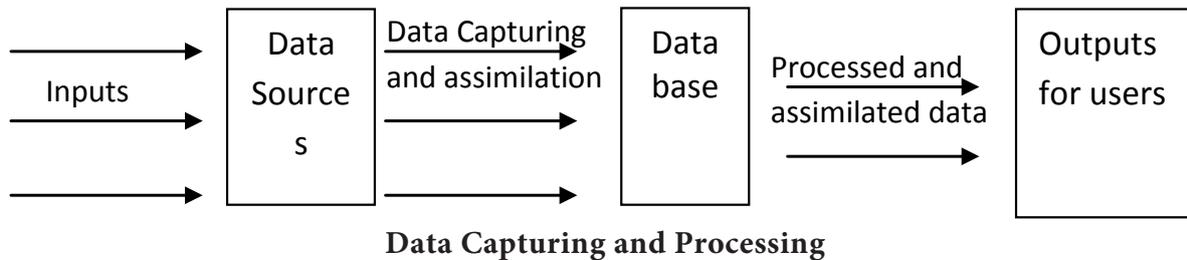
The integration of old data into the new systems could be put to extensive use for various analytical purposes by companies. CRM is regarded as a data–centric and data intensive initiative. Therefore, a large quantity of data will be sent and received from various contact points on a continuous basis. Hence, it is explicit that data transfers need to take place at a fast pace to ensure that the CRM activities are not diluted. Uninterrupted connectivity, excellent capacity, fail-safe systems, and back-up mechanisms must be in the agenda of customer data management.

For the CRM system to be beneficial to the users, it should be well integrated with the other sources of relevant data such as the MIS, GPS, GIS, etc. It would be highly advantageous for the users as they receive latest data from the other systems. Furthermore, the CRM system must have the capacity to handle multiple data types, and therefore, it should be compatible with mobile phones, fax machines and/or IP addresses. The ODS (Operational Data Store) helps to integrate older data into the new database which is useful to handle queries related to the old data (e.g. previous sales transactions of customers).

The OLAP (On – line Analytical Processing) refers to processing that supports the analysis of business trends and projections. In customer data management, the OLTP (On-Line Transaction Processing) keeps track of all the day to day transactions of the company that are taking place in the CRM system and OODBs (Object Oriented Data Bases) consist of a database that serves to store and retrieve multiple data types.

The transactional data emerging from the various transactions taking place in organizations need to be consolidated and analysed to give proper indicators of the customers. The data processing also helps to generate single customer views. Creation of Customer Information System (CIS) offers wholesome customer profiles at a click. CIS

ensures that the database incorporated all the relevant information of the customers for ready reference. With a streamlined CIS, the relationships with customers can be properly handled. Through data processing, the company can get a clear picture about the customer's unmet needs and areas where value can be enhanced.

Hardware (computers, displays, devices, etc)	Software (functional programmes)	Networking (connectivity tools)
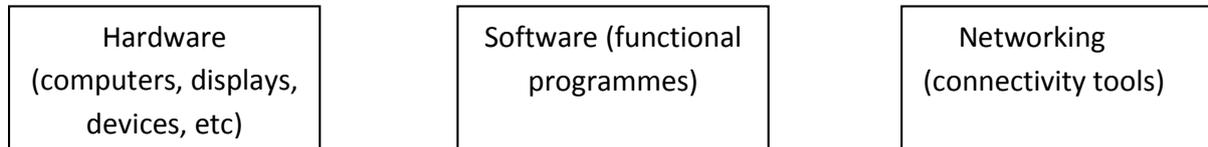
Systems for Data capturing and processing

Managing and Sharing Customer Data

It is important for organizations to keep track of customer information and research their customer base in order to collect feedback. There is an array of software applications designed to provide firms swift and efficient access to customer data. Customer Data Management or CDM refers to the collection, analysis, organising, reporting, and sharing of customer information holistically in an organization. CDM as a relationship management process is a key aspect because firms need a clear cut understanding of their customers' needs and wants to retain and expand their customer base. Furthermore, the issues faced by customers can be traced at the input gathering source and can be addressed rapidly.

Over the years, the value and availability of customer data has increased manifold. Firms are now turning to customer analytic applications for identifying the tastes, attitudes, behavior, and preferences of particular target markets to create more relevant products/ services and enhance marketing activities. The customer database management software stores, retrieves, organises, and analyses customer data. Such customer data can include:

a) Customer activity information (e.g.: website visits, frequency of interaction, sales, customer support, etc).

b) Demographic data (e.g.: income, occupation, education levels, age group, marital status, etc).

c) Psychographic data (e.g.: IAO (Interest, Attitudes, Opinions), social class, lifestyle, values, hobbies, etc).

Now, Customer Database Management applications are central to any CRM solution. This is because, CRM is a strategy for managing the customer experience through the use of information about a customer, customer feedback, and history of interactions

with the customer. Thus, quality of data and its availability are vital factors for successful CRM implementation. Cloud computing is a great proposition for managing customer data due to its accessibility and cost effectiveness.

Customer relationship Management is Customer Understanding + Relationship Management and hence it is very obvious that for having sound understanding of customers, their accurate and current data have to be possessed by companies. The customer relationship management softwares which are in vogue now are essentially meant to address the needs of marketing, sales, and distribution, and also the customer service and support divisions within an organisation and create a platform for the three to share data on prospects, customers, partners, employees, and competitors. The data is managed through the entire lifecycle of the customers. CRM softwares manage customer data amongst many stakeholders of the firm in real-time resulting in better customer relations.

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│ files         │ │ bases (transac-  │ │ warehouses   │ │ databases        │
│               │ │ tional databases)│ │              │ │                  │
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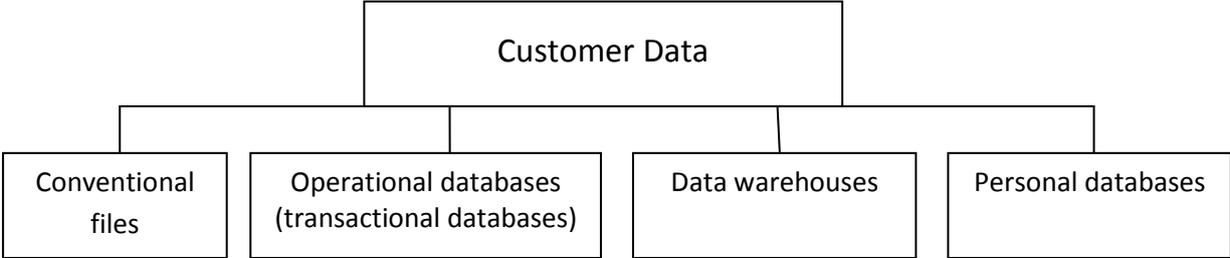
Customer Data Storage

Ensuring data quality is a challenge while managing customer data. Most of the critical data pertaining to customers in firms are either inaccurate or incomplete. The data quality problems arise from faulty inputs. Data quality auditing by way of a structured survey of the accuracy and level of completeness of the data in an information system can offset erosion of data quality. Faculty data has to be identified and corrected. There should be a mechanism in place to edit data.

The virtual storage method is most preferred by companies to manage customer data compared to the direct file access method. The Database Management System (DBMS) is software used by companies to create and maintain data. It enables business applications to store and extract data independent of any other computer programmes.

Data management is the management of data, information represented in a formalized manner appropriate for communication, interpretation, or processing. Data to be used for CRM is to be shared between information systems.

There are many ways of sharing customer data. The major factors which influence them are:

a) Data type
b) Process of sharing (e.g. level of detail, timing of transfer and access)
c) Data protection legislation and ethical conduct guidelines

Let us discuss each of these. The common types of customer data that may arouse the interests of stakeholders are:

➢ Demographic and lifestyle
➢ Product preferences
➢ Media preferences and responsiveness
➢ Purchase behaviour and transactions
➢ Customer complaints, return, refund claims, risk management
➢ Mode of payment
➢ Loyalty schemes and its use
➢ Product data
➢ Service history
➢ Product movements within the organization
➢ Promotional results – redemptions, sales
➢ Promotional plans and performance
➢ Profits and revenues from CRM initiatives

Customer data is obviously shared by all the levels and departments of the company. Without such am integration, CRM may not hit the bull's eye. But when it comes to sharing data with partners, there is some exclusivity as data at the individual level or at the level of very small customer segments are communicated.

This is because, the more detailed the data transfer, the greater the perceived risk. Less risk is usually perceived when it comes to lifestyle and demographic data. The role of a trusted third party such as consultants is well established in data vending.

There are many pertinent issues and influences in sharing of data. The first one is within a specific sector which may be regulatory or cultural. In some cases, the retailers may be in a more advantageous position over the suppliers due to the proximity with customers.

Competition is yet another issue. There is concern in the air over 'what if the competitor gets hold of information that is shared?' Customer data sharing between partners can sometimes be pinching because of the perceived risk of better or worse exploitation of data and consequent problems with customers or competitors. The volume of data can act as a deterrent in effective data sharing. Sometimes, there is the cost factor involved in data sharing. Whether data sharing between partners is cost effective is often examined. The role of trusted third parties is gaining coinage especially in disseminating demographic and lifestyle data. Most of the companies are willing to share general customer data, but when it comes to sales and promotional response, they might be reluctant.

The confidentiality of data is of crucial importance and with large number of users accessing the system, there should be restrictions to prevent breach of security and hacking, lest the data reaches the wrong hands. The confidentiality of data must be maintained at all costs. Cyber security tools are incorporated by institutions such as banks and insurance companies. Appropriate encryption methods and proper digital certification are used to comply with the requisite norms of cyber security. Firewall security system is used for online transactions.
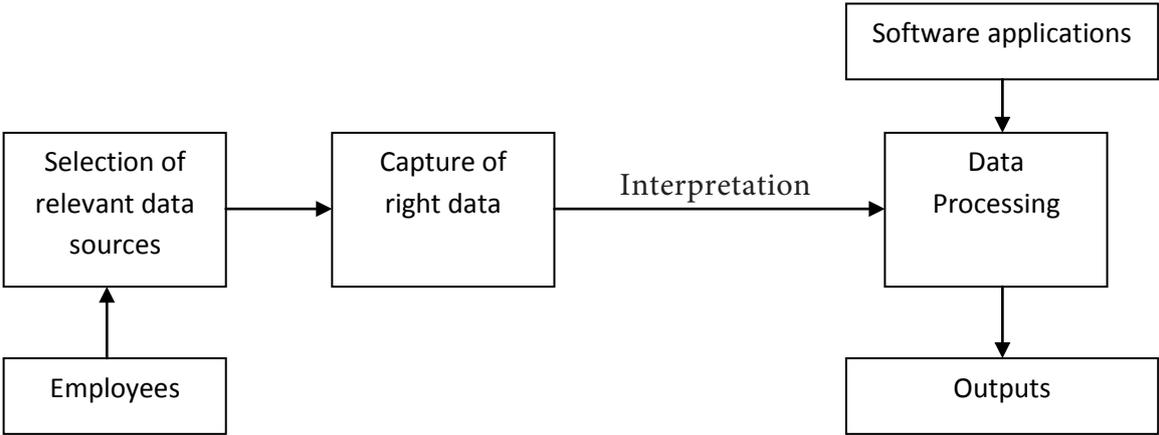
Issues in Data Management

Data protection legislations vary from country to country. They are also influenced by the business conduct guidelines of industries and markets. This is particularly factual in insurance and banking. World over, demand is accentuating to tighten regulations which can protect individual privacy as data use and sharing (through social networking sites, online shopping, e-commerce and other platforms) becomes more prevalent. The considerations here are 'what was the purpose and how the data was collected', 'with what expectation', 'does it have customers approvals', 'relevancy of data', ''data sharing within the company or group to the right and responsible people', 'retention of data in identifiable or anonymous form', and 'customer data held in non-automated forms' (e.g. paper files).

Customer data can aid organisations in making major decisions about reorganising their businesses, delivery of service offerings, marketing, and other strategies. It can provide an aggregate view of customers' feelings about the product/service.

The data will uncover a lot including the trends and prospects. But, the numbers representing the data need not always tell the whole story about customer habits and preferences. For procuring the data or data capturing, using the right tools by sources becomes very important.

The most important decisions in customer data management are:

- Who will have access to the database?
- Who will generate reports?
- How the data will be used?
- How the data will be shared?
- How will the company ensure the ethical and legal use of data?
- How detailed the data be?

The front-line staff is the key people who manage customer data because they collect it at the source through customer interface. Such staff members who are entrusted with the responsibility of collecting data must be briefed properly. They should not be too intrusive.

When the customer participates in the interface, that data itself is worthy of capturing. Too much data shared by the company with others could do more harm than good. The contact of sales person or counter staff with the customers is vital to ensure that no internal disturbance occurs. Even a simple CRM database can store lot of data, but the managers must know what to extract from the files. Databases should not endanger customer – management relationship.

The sources of data inputs are

- Government reports
- Private reports
- Trade Associations
- Point of Sale
- Employees
- Surveys, Focus Group

Ethics and Legalities of Data Use

Customer data, obtained directly from the customers, needs to be used by organisations only for the purposes informed to the customers. Customers' approval is necessary, without which it is unethical for firms to sell data to others or use it for future research projects. Access to data obtained by companies is to be allowed only to genuine authorized people who really need it. Customer privacy must be maintained and respected at all times through proper use of data. Customer satisfaction may plummet, if information is used recklessly.

Ethics and legalities of data use is primarily concerned with 'how the data was collected'; 'for what purpose'; 'with what expectation and consent by the customer'; 'ingenuous data sharing with utmost discretion'; 'relevancy and anonymity'; 'right use' at the right time'.

Ethics and legalities of data use has become a significant management issue for all new and existing processes and systems. Companies should restrain from infringing legislation while using customer data competitively. Violation of ethics and norms may put them to legal trials; affect brand, and hamper future operations. At organisational level too, it would be ideal if data protection legislation is envisaged.

Advantages and Disadvantages of Customer Data

The key benefits of sharing customer data include:

- ➢ Improved marketing strategies
- ➢ Identification of target market
- ➢ Enhancement of marketing communication channels and content
- ➢ Suitable product planning
- ➢ Refined pricing
- ➢ Low costs of data acquisition
- ➢ Slashed mailing costs
- ➢ Reduced market risk
- ➢ Knowledge / skills transfer
- ➢ Low costs of data processing
- ➢ Reduced media campaign
- ➢ More responsiveness to market trends

- ➤ Greater chances of gaining competitive advantage
- ➤ More market share
- ➤ Better negotiation and bargaining power

The main disadvantages of sharing customer data include:

- ➤ Rise in marketing costs
- ➤ Data security issues
- ➤ Complexities of data analysis
- ➤ Legal constraints
- ➤ Increased costs of marketing
- ➤ Difficulties in data management
- ➤ Conflict caused by diverse objectives
- ➤ Incompatible sales procedures and marketing agenda
- ➤ General conflict of interest and decision making
- ➤ Differences in customer ownership
- ➤ Uncertainty over data ownership
- ➤ Conflicts over business strategies
- ➤ Incompatibility of systems and processes
- ➤ Inadequate competencies in data management

Customer Information Databases

In the past sections of this lesson, the importance and applications of customer data was discussed. The key aspects involved in data storage such as accuracy, relevancy, and updated information were also deliberated in detail. Now, under this heading the nature and elements of customer information database shall be elucidated in terms of what data is being stored, how it is updated and maintained, and when and how it is retrieved.

The customer information database configures personal information of customers such as contact addresses, e-mail id's, personal website addresses, phone numbers, as well as occupation details, family size, income brackets, and other demographic information. Many organizations also use their Customer Information Database (CID) to record purchase history, consumer behavior, buyer's preferences, service encounters, customer support needs, and also the after-sales details, feedback, and warranty information. Thus, any information pertaining to customer transactions and interactions are stored in the CRM database.

The Uses of Customer Information Database (CID)

A Customer Information Database can be used for storing customer information. In this context, as it was dealt with earlier, accuracy, current value, and scalability should be the prime properties of a CID.

The CRM initiatives including planning and implementation is heavily dependent on and influenced by customer information. The policy makers, marketers, and other decision making authorities look forwards to the status of CID. The organizational staff, especially sales and marketing personnel act according to the information depicted in the CID. Both individual and group CID's can be maintained and managed depending on the market trends and product/service characteristics.

CID's are playing a crucial role in firms' designing their marketing plans. For instance, through a customer information database, marketers will be able to determine whether an individual customer or a group of customers show loyalty towards their product/ services, and thereby take a view on extending offers and benefits to those segments. For lack of a well – framed CID, the marketing activities run the risk of missing the target as it tends to go very generic.

Customer information databases are highly useful as regards day-to-day business functions of organisations. Even the data on sales calls and inquiries aid the company to know the pulse of customers – their choices, likes and dislikes, tastes, and attitudes. Based on such information, marketers can devise their promotional plans, media selection, and communication efforts. CID's are also useful for the selection of distribution channels. The method of purchase and choice of outlets of customers, i.e., whether through online shopping or from wholesale outlets or retail malls can be figured out from the data. Furthermore, which groups of customers are looking forward to product upgradation also get reflected in an updated CRM database.

CID's act like ready reckoners when it comes to the plans of action of relationship managers. They can find out the reasons for the defection of some segments or individual customers and act upon to curtail attrition.

Customer Information Database and Managerial Efficiency

It is very clear that CID's help organizations to understand their customers well. The highlights of Customer Information Database are

- CID's streamline the inputs to be received by data sources.

- The data sources are kept active and ready.

- Data capturing is made more efficient.

- CID's enhance levels of communications between customers, staff, funders, and other stakeholders.

- CID's improve decision making capabilities of management as well as marketers.

- CID's reduce wastage of time, energy and resources.

- CRM database is the best marketing tool owing to the possession of detailed records maintained about customers, their needs, preferences, and buying habits. The database is used by management to create reports on buying trends and practices and focus marketing strategies to best fit the requirements using the information.

- CID's are central to managing the staff of organizations. Key information can be captured and stored within the database such as employee ID details and commission information. Managers find these data useful for assigning tasks to employees, check and evaluate the progress and review and monitor the sales records. The CRM data base is an indicator for the managers on the productivity and motivation level of their employees.

- CIDs make customer support operations very effective.

Elements of Customer Information Database

Capturing customer profile is the first stage in designing a CID. The inputs may include information about:

- Who are the customers?
- Are customers, individuals, segments or business entities?
- Where are they located?
- If the customers are enterprises, how big are they? What business they do?
- Why the customers need product/service?
- What are their tastes and attitudes?
- What are their expectations?
- What is their spending capacity?
- How are their financial dealings?
- How long have they been the customer?

After capturing the data, the inputs are analysed in terms of

- ➢ Frequency of purchase
- ➢ Time of purchase
- ➢ Patterns of buying (e.g.: seasonal)
- ➢ Quantity of purchase

Finally, the data is processed and assimilated to establish and reinforce relationships with customers.

Summary

This lesson highlights the needs for capturing the right data and identification of relevant data sources. CRM requires a multi channel approach in today's competitive business scenario. In this context, the number of data sources are also increasing and proper consideration should be paid while making the selection. As mentioned earlier, customer data is the backbone of a company's CRM initiatives, the analysis of which helps managers take effective steps to establish long-term relationships with the customers. A well – qualified database can be immensely useful for cross–selling and up–selling ventures.

The data sources can capture varied forms of data and who represent data sources must ensure that the data captured is genuine and error free. The data sources and dissemination procedures are very important in data processing. The processing of the data must be carried out in such a way that the right outputs are available to users as and when necessary. Some of the expected outputs generated by the data processing unit are enumerated in this lesson.

Companies, as part of data management should keep track of customer information and research their customer base in order to collect feedback. A range of software application is available to provide companies fast and efficient access to customer data. Ensuring quality is a challenge while managing customer data. The major factors which influence customer data sharing such as data type, process of sharing, data protection and legislation, and ethical conduct guidelines are dealt with in this lesson. Integration of customer data is central to the success of any CRM programme. Customer data must be judiciously and appropriately shared by all the departments of the company and also with partners and share holders. At the same time, proper care must be taken to secure the data, lest it will be misused or hacked.

The Customer Information Database (CID) creates and maintains personal information of customers and other demographic information. Companies use their CID's in order to record purchase history, consumer behavior, buyer's preferences, service encounters, customer support needs, after–sales details, feedback, and even warranty information. The functions of CID's are mentioned in this lesson. Ethics and legalities of data use has become a major management issue for all new and existing processes and systems. The advantages and disadvantages of sharing customers' data and the use of Customer Information Database for enhancing managerial efficiency are elucidated in this lesson. The elements of CID are also outlined here.

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Lesson 2.2 - Data Warehousing and Data Mining

Learning Objectives

- To understand data warehousing as part of analytical CRM method
- To know the data warehousing architecture
- To familiarize with data mining as a prominent data gathering and data storage technique
- To learn the characteristics and goals of data mining
- To know about data mining tools and techniques.

Introduction

Database is a collection of data, especially one that can be accessed and processed by softwares. The challenges in data capturing, processing, and management are many. Whether the data captured by the sources are right and appropriate is the first key question. Moreover, the data sources could generate diverse formats of data too. Extensive use of IT warrants that such data should be recognizable to the system. Authentic data devoid of errors only could be put to effective use. The data gathered have to be validated, updated, and evaluated periodically. Security is another concern. The database should be secure and data security and accuracy must be promptly ensured.

There are storage and analytical mechanisms to understand a customer in terms of his purchase behavior. Contemporary CRM practices highlight data warehouse and data mining as efficient applications to study the buying decision process. Data warehousing refers to the database for collection of data for reporting and data analysis. Data warehouses store current as well as historical data which are used for creating trading reports for senior management such as annual, quarterly, and half-yearly postings for evaluation and comparisons.

Data mining refers to such data analysis for identifying customer preferences. Data mining entails data analysis procedures that identifies and targets significant patterns of variables and characteristics pertaining to distinguishable customers or customer groups. Data mining is employed to explore markets and its varied profiles. It is a process of

classifying customers by predicting their behaviours. Data mining aids in exploration and analysis of data of immense magnitude. Also, it brings to light meaningful patterns and principles. Data warehousing and data mining allow companies to better understand their customers and enhance its marketing, sales, and customer support operations.

Data warehouse is a central repository for data from various operational areas of the organisation that are stored and inventoried on a centralized computer network. It is created by integration of data from one or more sources and used for creating trending reports. It helps the management of firms to comprehend market trends and formulate marketing strategies in consonance with the trends.

Data Warehousing – Organising of Data for Analysing and Reporting

Creation and management of customer database are important for companies. The data should be made available to all the users for taking appropriate decisions. Data based decisions are certainly the hallmark aspect of CRM. Data warehouses are generally used for storage of large customer data. In the competitive business world, the edge firms' have depends on using technology for data applications. Data warehousing provides companies efficient, flexible, and concrete means of accessing sets of data that are crucial for its effective functioning. It helps organizations in planning, forecasting and managing the assets and resources productively. Data warehousing now confirms a fruitful integration of operational and informational systems. In the recent past, data warehousing has progressed into an architecture for data delivery, for trending, analysis, and end-user computing.

For data mining to be effective, the firm must initiate with an available computerized data set. Data compiled from various sources should be consolidated into a data warehouse for analysis, especially to ensure accuracy and consistency. Thus, data warehouse is the infrastructure on which data mining application reside and operate.

Data warehousing is an amalgamation of decision support technologies, aimed at providing the decision makers authentic information for making better and faster decisions. According to Chaudhari and Dayal (1977), a data warehouse is a subject–oriented, integrated, time varying, non–volatile collection of data that is primarily used in organizational decision – making. They are created and maintained with the core objective of decision support.

Data warehouse are typically maintained separately from the firm's operational databases. Operational databases are put to use for the company's day-to-day transactions Data warehouse is of a greater magnitude and contains historical and other data compiled

from all areas of the organization. They are optimized for decision support. The decision-makers have ample records at their disposal in the data warehouse. Data based decisions require integration of required data from heterogeneous sources which has to be consolidated into one large database so that analysis could be carried out. Data which are not relevant for the day–to–day operational database may also be required for providing decision support and herein lays the value and importance of data warehouse. In data warehouse, the varying quality, firms, codes, etc are reconciled. Therefore, data warehouses are created separately from operational databases.

Data warehouses maybe constructed and used on standard or extended relational database management systems known relational OLAP (Online Analytical Processing) servers (ROLAP). In case of data being stored in a multi-dimensional form, they are called MOLAP (Multi-dimensional Online Analytical Processing) servers.

Creating a data warehouse is a long and arduous process that may take considerable amount of time, money, and efforts. Some companies prefer to subscribe to data marts. Data marts are minor data warehouses, which are subsets of parts focused on selected subjects. But, in future integration of data in such cases may be a case of concern.

A normal data warehouse includes tools for extracting data from different operational databases and external sources. This data is fine-tuned and made consistent by transformational tools. Integration of data is also performed. There are applications for loading the data into the data warehouse and refreshing time–bound. Data in the warehouse is stored and managed by one or more warehouse servers, which provide multi-dimensional data to the end–users. These comprise query and reporting tools, operational CRM tools or data mining tools. Finally, there is a base for storing and managing META data and tools for monitoring and administering the warehousing dynamics.

Data Warehousing as a CRM Tool

The data warehouse is an important arm of the CRM system. Organisations are in an advantageous position while having data warehouses. The important merits are mentioned below.

➢ Several channels are used for transactions with the customers. As the number of channels engaging customers increase, integration of information poses difficulties. An efficient data warehouse presents better information integration to the decision – maker.

➢ The implementation of a data warehouse can help the firm respond to CRM queries after integrating the data from the web servers. This is particularly useful in the case of potential online customers, whose shopping practice may stop abruptly not leading to the purchase. The data warehouse gathers large amount of click–stream data that enables the organisations to understand how customers access their websites and how they act when they are accessing them. Use of data from data warehouse in terms of interactions with customers helps a great deal in personalization of services. Companies want to treat every customer with a personal touch getting to know their tastes, attitudes, preferences, interests, values, etc., For example, a company can infer what value–adds or extra incentives customers expect from them.

➢ Data warehouses are highly useful for the marketing campaigns of firms. Campaign management is the process of planning, implementing, and assessing external campaigns. The data warehouse presents the empirical data required to determine the exact size of a campaign market, finding out customer prospects, and analysing the effectiveness of a campaign based on the responses.

➢ From the data warehouses, companies can infer how customers have responded to the various forms of communication used. The historical data provided by the data warehouse in conjunction with a campaign management tool helps the company to locate prospective customers based on their previous actions. This improves the efficiency of the marketing campaign by targeting the right customers.

➢ Data warehouses help in decision support by consolidating, reconciling, and integrating customer information along with other vital information namely geographic, demographic, psychographic, etc. from other parts of the company.

➢ A well – designed data warehouse strengthens CRM practices.

Relational Database

A relational database consists of a collection of tables that maintains particular sets of data. It has brought about standardisation in the way data is stored and analysed. A relation is the first unit of storage in a relational database, which is a two–dimensional table. Each table consists of a specialised set of rows and columns. Attributes of the data are fielded in columns, or fields in the table. The essence of the data or the column relates one record to another. Each column has a unique identification that has content within it of the same type.

Normalisation

The data that is stored in tables are logically organised based on a particular requirement that curtails duplication, reduces data anomalies and cements data integrity. The process by which data is structured rationally is known as normalisation. Normalisation simplifies the way data is considered and regulates its structure. A data warehouse can be normalized or de-normalised. It can be a relational database, multi–dimensional database, hierarchical database, object database, flat file, etc.

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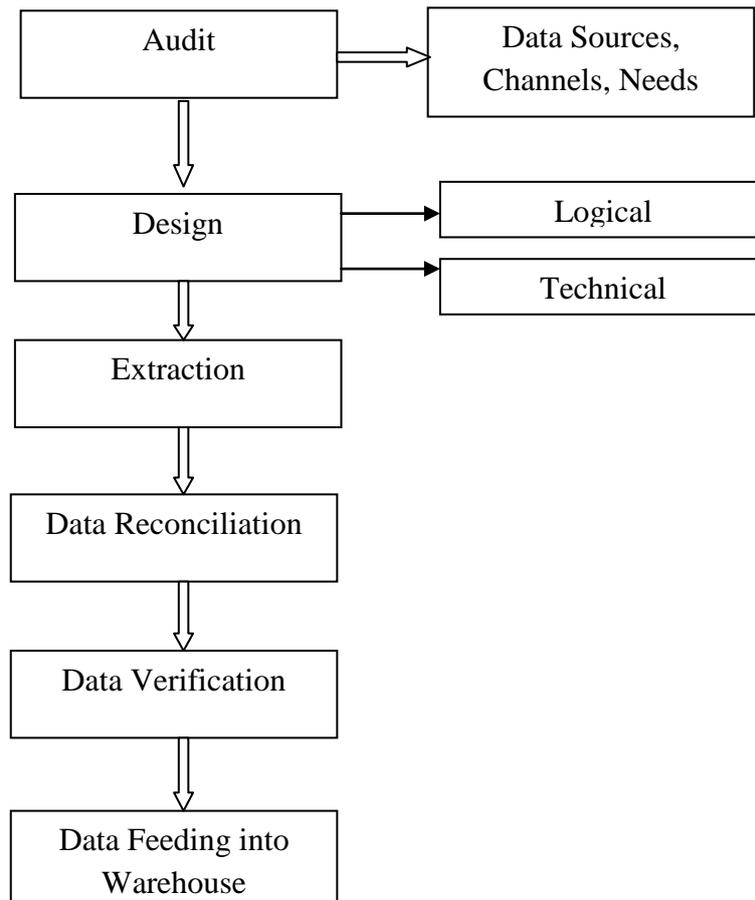
The Stages of Creation of a Data Warehouse

Benefits of Data Warehouse

a) **Consistency** – Warehousing can be of great benefits to marketers. It not only helps them to find out who the real customer is but also helps to locate the lost customer.

b) Meta Data – An important concept in warehousing is metadata i.e., how the warehouse has been constructed that explains creation of new variables, how the variable were derived, how often tables are updated, and how much data is in the warehouse.

Data Warehousing Architecture
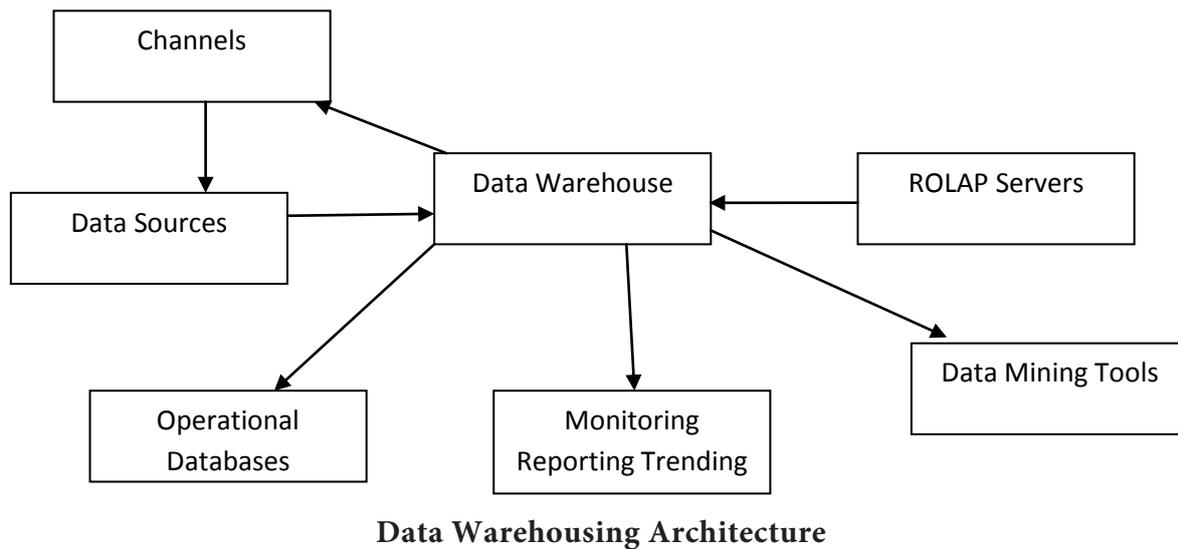
What is Data Mining?

Big companies generate large quantities of data through their daily transactions. Different approaches are required for analysing such data. This has lead to the formation of the field of Knowledge Discovery in Databases (KDD), more popularly known as Data Mining. Knowledge Discovery in Databases (KDD) is the non-trivial process of identifying valid, novel, potentially useful and ultimately understandeable patterns in data (Fayyad et' al., 1996). Data Mining implies a set of tools and techniques that operate on and draw implicit variables and tendencies from data.

Characteristics of Data Mining

Data Mining has special characteristics which are different from traditional data analysis approaches. The key ones are as follows:

➢ Data mining is characterized by inter–disciplinary perspectives adopting inputs from diverse but related areas such as statistics, artificial intelligence, machine learning and large databases.

➢ Data mining tools and techniques operate on large databases. This necessitates modification to suit large datasets.

➢ The scanning methods are offered autonomy by the data mining techniques resulting in the exploration characterised by automated or semi–automated nature.

➢ Data mining is usually carried out on data gathered while performing the day-to-day operations of a firm. Such data is subjected to less distortion, though many a time, variable derived may be insufficient to do the desired analysis.

➢ Data mining facilitates the involvement of the end user in a smooth manner without the need for any trained intervention either for executing the techniques or for interpreting the results.

Tasks, Tools, and Techniques of Data Mining

Data mining tools and techniques work on huge databases and extract patterns and propositions that are innate. The knowledge derived from the databases by the data mining algorithms is of two types: predictive and descriptive. Prediction refers to finding out the future state of a variable using its past values and the values of other related variables. Description implies finding out the properties that explain the data under consideration.

The challenges encountered during data mining have been dealt with by Matheus et' al. (1993) as: 'The grand challenge of knowledge discovery in databases is to automatically process large quantities of raw data, identify the most significant and meaningful patterns, and present these as knowledge appropriate for achieving the user's goals'.

Data mining tasks are functions that draw upon predictive or descriptive knowledge from large datasets.

The Important Tasks are

a) **Classification** – In CRM, classification is used to determine buyer behaviour, product and customer types, and campaign management.

b) **Regression** – The value of a dependent function can be figured out based on values of other independent variables through regression. For example, the impact of a particular ad campaign can be measured in tandem with the advertising budget, nature of advertising, etc. The advertising manager can look at the regression equation to make the decision on the budget of the campaign.

c) **Link Analysis** – Relationship between items or attributes in a database to unveil the trends and patterns can be established through link analysis. Link analysis has a historical function too as it helps to trace connections between items of records over time. The major link analysis application in CRM, known as Market Basket Analysis, is a function that seeks relationships between product items characterising product affinities or buyer preferences. For example, the show room manager can display the items in the space based on the association of items that sell together. The manager can reconfigure the display space based on the relationship between items that can be sold together or tracing the association with the past sales trends.

d) Segmentation – A thorough knowledge about the different segments is the pre – requisite of a marketing manager for effectively targeting the products / services. The commonalities in terms of the demand from the potential market are grouped to form segments. Segments are identified and their characteristics brought out by using clustering algorithms based on the identified criterion.

e) Deviation Detection – Deviation Detection (DD) concentrates on spotting the most important changes in the data from the earlier measured, expected or normative values. Many critical parameters change with the fluctuating market scenario and CRM keeps a tab on that. In such cases, when the parameters change above a certain value as defined by the user, then it is reported for the right action.

Data mining, in most cases, is explorative in action. They explore the possible relationships that exit between variables though the reasons may not be well – defined. The highlight of data mining is that it exposes the hidden relationships between variables. The applications of data mining tasks must be guided by the queries that are prone to be asked. Many a time, two or more data mining tasks are used in conjunction on a large database to form insights.

Data mining tools and techniques are algorithms and methods used to perform the datamining tasks. The differences between them are generally in terms of the data operated, assumptions about the data, and scope and analysis of the output. A data mining task could be carried out using two or more tools. For example, classification can be undertaken by decision trees, neural networks or rule induction.

The following are some of the important data mining tools:

a. Decision Trees – Decision Trees are classification tools that classify examples into finite number of classes considering one variable at a time and dividing the entire data set based on it (Yoon, 1999). Decision Trees define the rules for segmentation and classification.

b. Rule Induction – Rule Induction is the process of framing general rules that can be used in many cases from a database of specific examples. Such rules may be of the classification type, predictive type or may be rules that perform link analysis.

c. Case–Based Reasoning – Case Based Reasoning (CBR) methods, according to Yoon (1991), try to simulate the thinking process of human being. When a case is served to a CBR solution, it tries to match that with other similar cases that it has in the system and retrieves the case that is most identical to the current case. Decision is then taken based on extrapolation, i.e., picking the decision taken by the most

appropriate case. The strength of case based reasoning solutions depends mainly on the indexing method used to store cases and the matching method used to retrieve relevant cases.

d. **Visualisation Techniques** – Visualisation Techniques enable the user to view data from different dimensions using animated and graphic display techniques like charts, diagrams, displays for multi–dimensional data, etc. Visualisation Techniques appeal to the users and highlight the data to be looked into. It also helps to discover new information. VT makes data easily understandable.

e. **Nearest Neighbour Techniques** – According to Yoon (1999), Nearest Neighbor Techniques use a set of examples to approximate a classification model. In classifying a case to a pre–defined class, NNT aids to find its neighbours which have similar properties. A similarity measure is used for the purpose of finding the 'closest' case in terms of certain parameters. Further, the new case is assigned to the class that has the maximum representation amongst its neighbours.

f. **Clustering Algorithms** – Clustering Algorithms divide the database into different groups called clusters in a way that intra–cluster similarity is optimum and the inter – cluster similarity is the minimum. Clustering algorithms are used in market segmentation for the marketer to have a comprehensive understanding of the various segments.

Data mining tools must be used judiciously after assessing particular tasks. During transactions, new data constantly comes up into the data warehouse and sometimes the old data is updated. Data mining solution for a particular CRM application must attend to that kind of proposition. The integration between front end CRM solution like campaign management and the back end data mining solution ensure consistency and accurate and timely information dissemination in the organisation.

Uses of Data Mining

➢ Data mining helps in locating customers who may defect. Churn models predict the customers who may leave the company. Such customers could be targeted and lured to stick to the company.

➢ Data mining could be leveraged to make more informed and better decisions.

➢ Data mining helps to understand the buying behaviour of customers.

➢ Data Mining detects the favourable segments for communication avoiding wastage of time, money and efforts.

➢ Data on past interactions can be extremely useful for businesses.

- Data mining provides timely and relevant information to both management and staff.

- Through the use of automated data mining techniques, organisations are discovering new trends and patterns of behaviour that earlier went unnoticed.

- Data mining offers huge potential for business firms to make use of the abundant data available to them to make scientific decisions.

- Researches indicate that most companies have got promising returns on their investment on data mining projects.

- Data mining provides a user friendly, intuitive interface in the system.

- Real time data mining tools can provide online information.
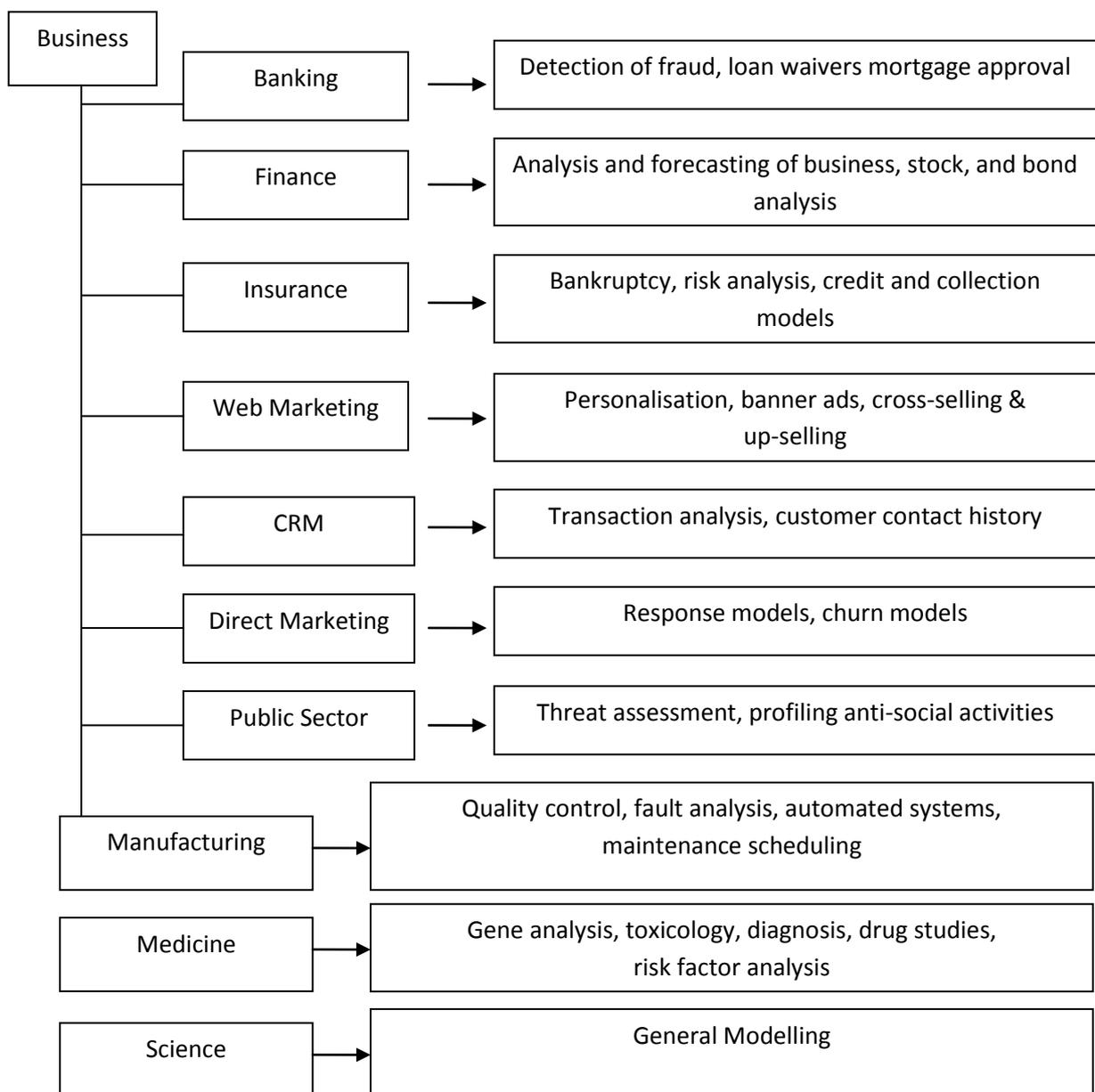
Application Fields of Data Mining

Goals of Data Mining

The following are the main goals of data mining:

1. Developing deeper understanding of the data
2. Discovering hidden patterns
3. Envisaging actionable insights
4. Recognising relations between variables, inputs, and outputs
5. Forecasting future patterns

Data Mining Activities for Better CRM

Some of the examples of data mining activities in vogue that can be of great use to CRM practices are:

a. Customer defection
b. Customer gain and loss analysis
c. Customer response analysis
d. Customer solicitation
e. Promotion and communication analysis
f. Sales and purchase analysis
g. Seasonality analysis
h. Cross–selling and up–selling
i. Niche market selection
j. Target marketing
k. Channel of distribution analysis

Steps in Data Mining

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┌─────────────────────────────────────────┐
│      Data Collection and warehousing     │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│      Data refining, merging, grouping    │
└─────────────────────────────────────────┘
                    │
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│     Redefining and transforming variables│
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│           Collection of new data         │
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│     Data mining and results to be achieved│
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│             Data visualisation           │
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│      Analysis, collection of additional  │
│                 information              │
└─────────────────────────────────────────┘
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│                Assimilation              │
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│      Planning, Monitoring, Evaluation    │
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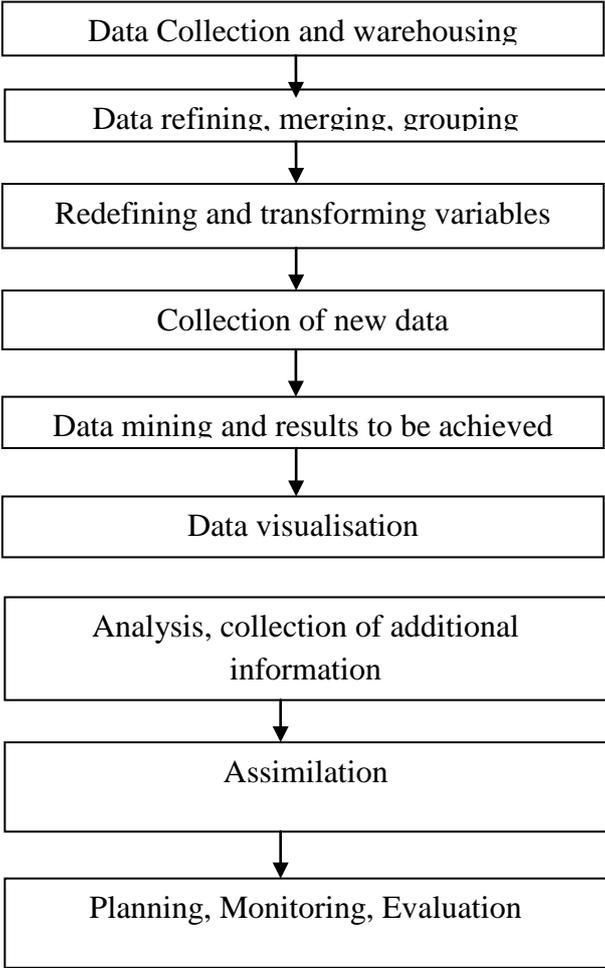
Summary

Data warehousing is becoming very popular. It entails organizing the data for analysis. The data warehouse is the operational area for data mining applications. This lesson portrays data warehousing as part of analytical CRM method. Also discussed here are data mining tasks such as classification, regression, link analysis, segmentation, and deviation detection. The data mining tools and techniques namely Decision Trees, Rule Induction, Case – Based Reasoning, Visualisation Techniques, Nearest Neighbor Techniques, and Clustering Algorithms are dealt with in this lesson. Four diagrams featuring the stages of creation of a data warehouse, data warehousing architecture, application fields of data mining, and steps in data mining are provided to emphasise the importance of data warehousing and data mining.

Data warehouses may be implemented on Relational Online Analytical Processing servers. Constructing a data warehouse is a long and complicated process. Data marts are smaller warehouses with lot of limitations. A typical data warehouse includes tools for

extracting data from several operational datasets and external sources. There are tools for loading the data into the data warehouse and refreshing it.

Data mining is a methodology to assess the value of data and to leverage that value as an asset to provide valuable information for decision making to the organisation based on a consistently evolving analytical model. By tapping its most relevant asset – data, organisations can gain high return on investment. Data mining tools are fast becoming a business necessity. Several computer data mining techniques are available now. The core objective of data mining is to extract valuable information from data and thus discover the hidden patterns. Data mining can pave the way for customer delight and thereby fetch profits for companies. It is a technique to extract predictive information from databases. Data mining methods explore information automatically and therefore data mining is data–driven, where as traditional statistical reporting and query tools are user – driven.

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Lesson 2.3 - Data Analysis In CRM- Perspectives and Methodologies

Learning Objectives

➢ To understand the importance and steps involved in data analysis.

➢ To study the tools used in data analysis.

➢ To acquaint with the methodologies of data analysis in CRM.

Introduction

Processing extracted data is a significant function of CRM. The data collected is processed in such a way that it yields the information required for effective decision making. The resultant data must be consistent and logical. Further, the data is tabulated and coded to be fed in the computer. The output is then analysed. It is important for organizations to have an eye for detail as regards authenticity and error-free mechanisms. A wide range of data analysis tools is employed in data analysis such as Correlation Analysis, Regression Analysis Factor Analysis, Cluster Analysis, and Conjoint Analysis. The methodology of data analysis in CRM comprises Customer segmentation, Recency, Frequency Monetary Value Analysis, Lifetime Value Analysis and Predictive Modelling.

The Perspectives of Data Analysis

CRM involves exploration and analysis of large quantities of data. The process of such data enables organisations to elicit meaningful patterns and rules. The realisation of the patterns and propositions allow the firms to understand a customer in a better way and enhance its sales, marketing, and customer–support functions.

The data collection sources and channels are audited to ensure that the data gathered is consistent, accurate, and logical. The data extracted are compiled, assimilated, and refreshed in such a way that it yields the information, the CRM process was designed to obtain. Subsequently, the data has to be prepared for tabulation, which implies that the data must be divided into categories and then coded so that the responses can be loaded into the computer. The responses are usually tabulated and analysed using certain tools.

The data analysis function entails transforming the raw data into concrete outputs, i.e. the requisite information. Tables of data are compiled, percentages and averages are computed, and comparisons are made between different classes, groups, and categories. At the time of editing and coding care has to be taken by the practitioners and analysts to avoid any error creeping in as such errors affect both validity and reliability.
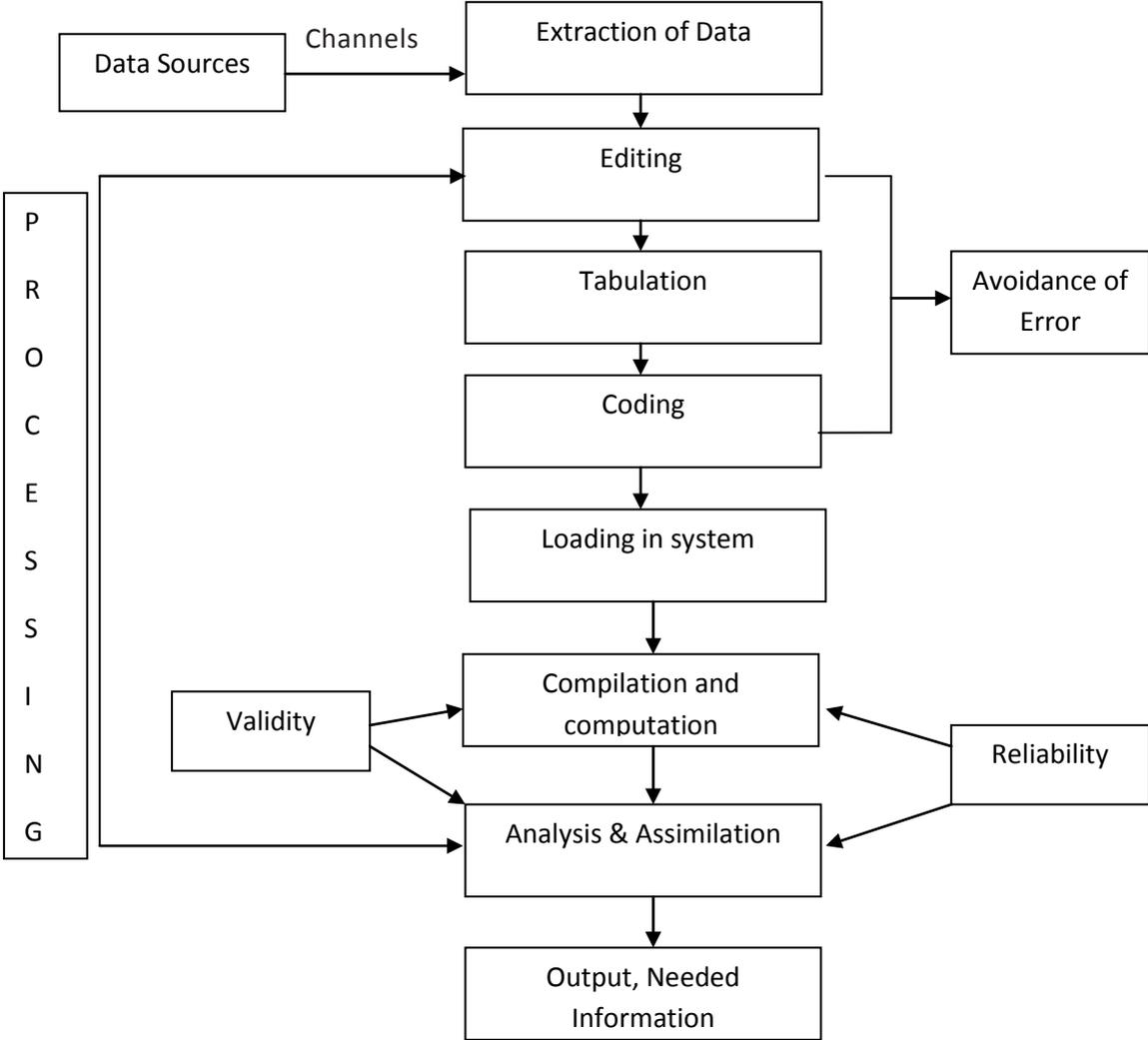
Steps in Data Analysis

Tools for Data Analysis

The analytical tools used for processing data are:

a. **Correlation Analysis** – The correlation analysis expressed by correlation coefficients is used to measure the degree of linear relationship between two variables. The correlation coefficient may be expressed in terms of any value between +1 and -1. The sign of the correlation coefficient (+,-) is an indication of the nature of the relationship, either positive or negative. A positive correlation coefficient means that as the value of one variable also increases, the value of the other variable also

increases and vice-versa. A negative correlation coefficient means that as one variable increases, the other decreases, and vice–versa. The absolute value of the correlation coefficient measures the strength of the relationship. A correlation coefficient of zero indicates the absence of a linear relationship and correlation coefficients of $r = +1.0$ and $r = -1.0$ indicate an ideal linear relationship. The scatter plots are used to illustrate how the correlation coefficient changes as the linear relationship between the two variables is changed.

Correlation analysis is effectively used for determining customer satisfaction and employee satisfaction as the variables contributing to the overall feeling of satisfaction or loyalty can be distinguished.

b. **Regression Analysis** – Regression analysis measures the strength of a relationship between a variable (e.g.: customer satisfaction) and two or more related variables (e.g.:- satisfaction with product quality, service, cost, etc). Regression analysis results in a predictive equation describing the relation between variables. Regression analysis is used for figuring out the satisfaction levels and to simulate the outcome when some actions are being taken.

c. **Factor Analysis** – Factor analysis is used to describe a large number of variables or questions by taking only a reduced set of underlying variables – called factors. It explains certain patterns of similarities between observed variables. Factor analysis groups variables which are highly correlated with each other. The two types of factor analyses are exploratory and confirmatory. While exploratory factor analysis is data-driven, confirmatory factor analysis is used in structural equation modeling and tests, and confirms hypotheses. Factor analysis locates core attributes and brings to light the various service dimensions.

d. **Cluster Analysis** – Cluster analysis is an exploratory tool designed to unveil natural groupings within a large group of observations. Cluster analysis aims to segment the survey sample, i.e., respondents or firms into a small number of groups. Depending on the similarity in responses, the respondents are grouped into clusters. The merit of cluster analysis is that it can suggest groupings which are otherwise not evident. Cluster analysis is extensively used in market research to describe and quantify customer segments. This facilitates marketers with information to target customers with distinct marketing approaches.

e. **Conjoint Analysis** – Conjoint analysis entails measuring respondent preferences about the attributes of a product or service. It is a perfect tool for new/improved product development. The relative importance of each attribute of a service can be determined using conjoint analysis.

Data Analysis Methodology

The following are the key methodologies in data analysis:

a. Customer Segmentation

Customer segmentation is the process of breaking large groups of customers into smaller and more homogenous groups. Potential customers who share certain interests are profiled and grouped together. Those groups of customers will express certain traits that distinguish them. The process of identifying groups of buyers from the total market having distinct buying desires or requirements is called segmentation. The important bases for segmentation are geographic, demographic, psychographic, product–based, and behavioural. Customer segmentation helps the firms to focus on the best customers who may engage in a meaningful relationship.

Customer segments should be created to ensure that the needs of customers belonging to a particular segment are met adequately. The spot light on a particular segment will lead to proper need fulfillment, improved value delivery, increased loyalty, and retention. The factors to be considered for segmentation are:

  i.   Long–term Objectives – The objectives that the customer intends to achieve through the use of the product in the long term should be considered while performing segmentation.

 ii.   Customer Profile –The customer profile should be defined for proper segmentation. This comprise demographic, geographic, psychographic, behavioural, etc.

iii.   Usage Type – The exact use that the customer wishes from the product has to be figured out as different customers may want different functions from the same product. The diverse usage rate and requirements have to be taken into account during segmentation.

 iv.   Buying Behaviour – The buying behavior shown by customers should be captured clearly for proper segmentation. The frequency of purchases and the volume are crucial factors. Determining the needs will ensure proper value delivery.

b. Recency–Frequency–Monetary Value

The Recency–Frequency–Monetary Value Analysis identifies customers who are most likely to be repeat customers. It aims toidentify and rank the 'best customers'. Furthermore, RFM method identifies the most profitable customers for the company.

It is utmost essential that typical measures have to be mooted by organisations for identifying loose customers and loyal customers. The Recency–Frequency–Value is an important one in this direction. Recency implies 'the transactions with a particular customer can be tracked through which a firm can develop a profile of the customer with respect to the purchases'. The regularity of the purchases and the relationship of the customers with the company indicate the level of loyalty. Based on the recency factor, firms can take proactive steps to make relevant offers to the customers taking into account the traits and preferences and evaluate the efficacy of the marketing campaign.

Frequency – keeping a tab on customer transactions helps firms to track frequency of purchases. The diminishing frequency of loyal customers can be found out and thus corrective measures can be taken.

Monetary Value – The average value of purchases made by particular customers can be tracked from the profiles and purchase behavior exhibited. There is a strong connection between the monetary value of purchases and the customers' relationship with the organisation. The company based on the monetary value can determine how rewarding and promising it is for them to form relationships with the customers.

c. **Lifetime Value Analysis**

This is a data manipulation technique that projects the future value of the customer. The duration of the customer lifetime is determined. The share of customers' purchases in the companies' offerings as against the competitors are captured. Accordingly the frequency of cross–selling and up–selling are increased, i.e., as per the levels and monetary value of the purchases. LTV analysis reveals the firm's costs of acquiring, serving and retaining its customers. The Lifetime Value analysis method must be linked with the loyalty programmes. Referrals must be made part of the LTV analysis. The risk rate should also be ascertained.

For Calculating LTV

LTV of any given customer can be expressed as:

LTV = total revenues, i.e., fixed costs + variable costs

According to Kotler and Keller (2005), Lifetime Value is 'the present value of the stream of future profits expected over the customers' lifetime purchases. The firm may deduct from the expected revenues, the expected costs of attracting, selling, and servicing the customer. CRM will aid in realising the Lifetime Value of customers. Analysts have recommended LTV as a metric for selecting and designing marketing programmes.

Benefits

- ➢ By comprehending LTV, firms would be able to differentiate among the customers.
- ➢ Firms segment customers by taking CLTV as a base.
- ➢ Firms can focus on customers with LTV and ensure that they are highly satisfied.
- ➢ It will lead to retention of valuable customers.
- ➢ Lifetime Value is a powerful tool for identifying and managing profitable customers.

d. Predictive Modeling

Predictive modeling is a data manipulation technique in which marketers try to figure out what the scope, chances, and prospects are that some other occurrence will take place in the future.

Predictive modeling is the process by which a model is created or chosen to try to best forecast the probability of an outcome. Usually, the model is selected on the basis of detection theory to try to conjure the probability of an outcome, given a set amount of input data. For instance, in the case of an e-mail, the chance of its being a spam is determined.

e. Market Basket Analysis (MBA)

Market Basket or Commodity Bundle are terms that are used to refer to a fixed list of items charted specifically to track the dynamics of inflation in an economy or specific market. The most common type Market Basket is the basket of products used to define the Consumer Price Index (CPI). There are other types of baskets which are used to define Producer Price Index (PPI), earlier known as Wholesale Price Index (WPI).

Market Basket Analysis in the retail business refers to market research that provides the retailer with concrete information to comprehend the buying behavior of customers. This information serves as a handy technique for the retailer to understand the buyers' needs and redesign the store's layout accordingly. It also helps the retailer to develop cross–promotional programmes and woo new customers imbibing the concept of cross–selling. For example, a customer coming into a store to buy a T-shirt with Che Guevara's picture printed on it would also be keen to read a book on the revolutionary.

f. Click Stream Analysis

This process is linked to the website. Click stream Analysis is the process of collecting, analysing, and reporting aggregate data about the web pages customers visit; and the order,

trends, and practices of accessing them. This is taken into account by computing the results of the succession of mouse clicks each visitor makes (the click stream). The two levels of click stream analysis are traffic analysis and e-commerce analysis.

Click stream can be defined as the record of a user's activity on the internet, including every website and every page of a website that the user visit including particulars on how long was the user on a page or site, in which order the pages were visited, any networking/chat groups that the user participates in and also the mail addresses in touch with the user.

A click stream is the recording of the parts of the screen a computer user clicks on while browsing the web or accessing another software application. As the user clicks anywhere on the web page or application, the action is logged on a customer or inside the web server, or else the web browser, router, proxy server or ad server.

The advantage of click stream analysis is that it can be used for web activity analysis, software testing, market research, and for analysing employee productivity.

The two types of click stream analysis are:

i) **Traffic Analysis** – This operates at the server level by collecting click stream data related to the path the user takes when navigating through the site. Traffic analysis tracks the number of pages served to the user, the time taken for pages to load, the frequency of the user hitting the browser's back or stop button, and the amount of data transmitted before a user moves on.

ii) **E-Commerce based Analysis** –This type uses click stream data to determine the effectiveness of the site as a channel to market by quantifying the user's behavior while on the website. It is used to keep track of the pages the user spends time on, what the user keeps in or takes out of his shopping cart and what articles the user purchases.

g. **Personalisation**

Personalisation is defined as the means of generating unique content customised for a particular client. Elements of a personalisation solution configure user profile and content. Personalisation is accomplished by collecting, storing, and analysing information about customers.

The personalisation technology consists of two types which are:

i. **Content based filtering** – This is recommendation of goods based on past behavior and user's preferences. It maps user behavior to the content and analyses the historical records on the trends in movement of each and every item.

ii. **Collaborative filtering** – This entails not only tracking user's preferences but also the choices of other users within a similar group. It is useful in situations which can be 'identical' like customers who liked 'X' also liked 'Y'. Collaborative filtering advocates user to user correlation where as Content based filtering highlights item to item correlation.

Airlines are offering personlisation to ensure better CRM approaches. For example, Indigo Airlines enables customers to choose their seats at the time of booking ticket. The passengers also can make a choice with regard to their food. By offering a variety of tariff plans, the telecom companies are putting in best efforts at personalisation.

Summary

Data analysis provides organizations the needed information enabling them to be pro-active in the realm of Customer Relationship Management (CRM). The various tools and methodologies of CRM at the disposal of management are discussed at length in this lesson. It is a fact that analysis of data and the resultant output profoundly influences the marketing policies of companies. In practice too, the results are rewarding as organization can get in-depth information on customers' profiles and preferences by way of data analysis. Planning of marketing budget can also be performed according to the outcome of data analysis. Data analysis also helps in measuring customer and employee satisfaction. Customer segmentation, RFM, Lifetime Value analysis, and Predictive Modeling are vital data analysis methods in CRM. Market Basket Analysis, Click Stream Analysis, Personalisation, Content based filtering, and Collaborative filtering are the new innovations in the realm of Customer Relationship Management.

Self Assessment Questions

1. Explain the constituents of customer data.
2. What are the various formats of data generated?
3. What are the outputs generated by the data processing unit?
4. What do you mean by integration of customer data?
5. Define customer data management.

6. Explain the importance of customer data management.

7. Discuss the ways of sharing customer data.

8. Explain customer data storage.

9. Discuss the issues in data management.

10. Examine the problems involved in sharing customer data.

11. Bring out the sources of data inputs.

12. Explain the importance of ethics and legalities of data use.

13. What are the advantages and disadvantages of sharing customer data?

14. What do you mean by Customer Information Database?

15. Explain the uses of customer information database.

16. How can CID's ensure management efficiency?

17. Outline the elements of customer information database.

18. Define Data Warehousing.

19. Explain the functions of a data warehouse.

20. Distinguish between a data warehouse and a traditional operational database.

21. Describe data warehousing as a CRM tool.

22. What is Relational Database?

23. Bring out the benefits of data warehouse.

24. Explain the stages of creation of a data warehouse.

25. Elucidate the data warehousing architecture.

26. What is Data Mining?

27. Explain the characteristics of data mining.

28. Describe the tasks of data mining.

29. What are the tools and techniques of data mining?

30. Illustrate the application fields of data mining.

31. What are the goals of data mining?

32. Explain the uses of data mining.

33. Outline the steps of data mining.

34. What do you mean by data analysis for CRM?

35. Explain the perspectives of data analysis?

36. Outline the steps involved in data analysis.

37. Explain the tools used for data analysis.

38. Explain the process of customer segmentation.

39. Bring out the factors to be considered for customer segmentation.

40. Describe the importance of Recency–Frequency–Monetary Value.

41. What is Lifetime Value Analysis?

42. What are the benefits of LTV?

43. What is Predictive Modelling?

44. Explain Market Basket Analysis.

45. What is Clickstream Analysis? Explain the types of clickstream analysis?

46. What do you mean by personalisation?

47. Explain the types of personalisation.

CASE STUDY

Holiday Bazaar – the case of Customer Centric Operations and Personalisation

Holiday Bazaar is a leading tour operations company and travel agency based in Hyderabad. It has grown to be a reputed name in the travel and logistics industry by providing excellent services and organised tours As a tour company with an eye for detail in each and every aspect of customer centric operations, Holiday Bazaar ensures finest experiences at an affordable price range. The travel firm has tie-ups with the world's leading brands namely Marriot, Radisson, Singapore Airlines, British Airways, and Jet Airways. Holiday Bazaar is an authorized B_2B agent for domestic and international segments. It provides travel assistance through networking with other premier travel companies located in different parts of the world. The high profile clientele of Holiday Bazaar such as Google, Accenture, Bank of America, Max New York Life Insurance, etc, vouches for its credibility.

Holiday Bazaar provides destination tours and holiday packages including ticketing, rent a car, accommodation, and site seeing. It also provides exclusive services to corporate, institutional, and individual groups with smart and cost-effective packages. The company boasts of an efficient and professionally trained work force of customer oriented staff who pro–actively endeavor to ensure that customers have "A Jovial Journey with Sweet Memories".

CRM practices and Personalisation

Holiday Bazaar aims to ensure that each one of its customers is satisfied and safe at every stage of their journey, from the time they first pick up HB brochures or browse websites to the time they reach home after a splendid holiday. The CRM policies of the company focus on fair sales and marketing, privacy of customer data and consumer protection, safety

and security of tourists, ensuring accessibility to customers with disabilities or impaired mobility, and supporting customers affected by unforeseen events like disasters. HB strives in a committed fashion to meet customer expectations.

The employees are the main pillars of the business of Holiday Bazaar. Their dedication and capacity to go that extra mile turn the trips into dream holidays for customers. HB management motivates their employees by initiating a highly commendable work culture; a supportive culture with clear and shared values.

Holiday Bazaar offers tailor-made outbound packages and they take care of air ticketing, Visa and other documents, travel insurance, airport transfer, group escorted holidays, and customised individual holidays. Personalised services are also offered to MICE customers and corporate clients. The magnitude of personalisation in MICE is exemplary in terms of hotel bookings, venue booking and site arrangements, sightseeing, food & beverages, team building activities, etc. Holidays Bazaar takes utmost care to fix the best possible travel insurance for its customers. HB is the sole distributor of Vodafone Calling Cards that allows customers to use it anywhere in the world. The company also offers Global SIM cards and multi–channel marketing campaigns.

CRM is an ongoing, dynamic learning process for HB. The company uses customer data to enhance the lifetime value of customer portfolio. Data management is the main focus area for HB as the e-commerce team works on ways to analyse customer behavior on the web and tailor its offering to specific types of clients. Holiday Bazaar is investing heavily in making its website increasingly personalised to each customer, to help increase online sales.

Questions

1. Analyse the CRM initiatives of Holiday Bazaar.

2. Personalised services drive the tour company- Holiday Bazaar and bring great reputation. Comment.

3. Examine how data management can influence the futuristic business of Holiday Bazaar.

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UNIT – III

Marketing of Services

Learning Objectives

- ➢ Explain services and elucidate on the dimensions of Service marketing.
- ➢ Examine the scope of services marketing.
- ➢ Illustrate tourism as a service industry.
- ➢ Outline the characteristics of services and classify them.
- ➢ Deal with the process of building service aspirations.
- ➢ Explore consumer behavior in Service encounters.

"The Four P's of Services Marketing are People, People, People, People"

-Richard Dow

Introduction

The service sector is of profound importance to the fast paced growth of a country's economy. India receives 55 percent contribution to GDP from services. A wide array of services is sought after by the modern consumers. Service consumption takes place at various levels. Communicating on the telephone and e-mail, watching television, availing legal services, using ATM facility, visiting a beauty parlour, taking an insurance policy are all examples of service consumption at the individual level. Banks, educational institutions, travel agencies, tour operators, hotels, resorts, cargo companies, airlines, cruise networks, railways and cafeterias are some of the well-known services organizations. The emergence and success of service based enterprises is referred to as the second industrial revolution. Economies of countries, namely, UK, USA, France, Japan, Germany, Canada, etc, have experienced a paradigm shift – from being manufacturing goods dominated to services dominated. The dynamics of service sector in these developed countries accounts for more employment, improvement of balance of payment situations, contribution to GDP and more consumption than manufactured goods. There is a significant growth in the service sector all over the world with respect to all the above parameters and the current trends strongly indicate that the service sector have an exemplary future.

Service marketing commences from the premise that customers are not always happy and delighted with the quality and value of the services they receive. Complaints often arise on account of lack of professionalism, incompetent staff, long waiting periods, unpleasant physical evidence, improper service delivery, rigid and complicated procedures, ethical issues, and a host of complexities. Service providers usually state that they find it very difficult to attract the right personnel, motivate the employees to do a good job, make a profit out of the enterprises, or to please the customers.

We are witnessing the arrival and acceptance of new services continually, which are being introduced to satisfy our existing needs and to meet the needs that we never know we actually had. We could never anticipate such personal needs as social networking, online banking, e-shopping, web hosting, and many other new services. Now, most of the services have gained acceptance and become a necessity. Modern technology and communications have revolutionized the service sector.

Many services require customers to pro-actively participate in creating the service product. Customer involvement is so crucial in service marketing as it takes the form of self – service, as in playing games in multi-media or withdrawing cash from ATM. Service providers need to consider the increased awareness levels of customers. Service firms have much to do to sensitize and train their customers to make them more competent and productive. When customers become part of service creation they tend to meet a lot of employees and often interact with them for extended periods of time. Direct involvement in service production means that the customers evaluate the quality of employees' knowledge and appearance, their social skills, and technical expertise.

The main focus of service marketing is creative value for the service offered and its tangible manifestations. Value can be defined as the worth of a specific action or object, relating to an individual's or an organization's need at a particular time, considering the costs involved in obtaining those benefits. Service enterprises create value by offering the types of service that customers need, at an acceptable price. The service companies on the other hand receive value from their customers primarily in the form of money paid by the customers to buy and use the services. This kind of transfer of value highlights one of the most fundamental concepts in marketing, that of exchange, which takes place when one party receives value from another in return for something else of value. There can be no creation value for shareholders in the long term unless value is created primarily of customers.

The employees of service firms must be customer service oriented in addition to being concerned about functioning efficiently. It is utmost important that service products

must be doctored to suit customer needs, priced realistically, distributed through convenient channels, and dynamically promoted to customers. The firms must continuously be aware of the trends in the size, structure, and behavior of each market in which their services compete. Service providers must constantly monitor the marketing strategies of their competitors, and need to develop clear strategies for achieving and maintaining competitive advantage. Also the present trends indicate that the coming era in service marketing is favouring the idea of complementary advantage - that which are mutually beneficial.

Services' marketing is founded upon the fundamental concepts of marketing.

It is a fact that the development of service marketing concepts has evolved in accordance with the philosophy of customer orientation. Marketing orientation places the customer at the core of an organization's purpose and activity. In many organizations the customer – centric philosophy is depicted as 'Customer is King', 'Putting People First' etc. However, a more rational and business – oriented approach to service marketing encompasses the philosophy of marketing orientation by focusing on taking care of the customers and satisfying them in the context of competitive offerings while remaining profitable as an organization.

The early literature on service concentrated on defining and refining the specific characteristics of services, the different classifications of the service product and the scope and complexity of services. Such definitions and refinements were important in the inquiry for how services should be managed and marketed. Much of the preliminary works delved on the comparison of services with goods or physical products and how existing marketing theories could be adapted for services. An international study commissioned by the Marketing Science Institute of Cambridge and authored by Languard et. al. (1981) represented the most comprehensive analysis and description of services marketing of that time. The study laid stress on the marketing issues that were considered to be central to the management of consumer service business. Researches in services marketing in the late 1980s and early 1990s were dominated by the adaptation of the SERVQUAL Model (developed by Zeithaml, Berry, Parasuram, 1985) – delivering service quality to almost every service application possible.

What is Service?

The Service Industries Journal defines service as "Service is any primary or complimentary activity that does not directly produce a physical product, that is, the non goods part of transaction between buyer (Customer) and seller (provider).

According to Stanton – "Services are those separately identifiable, essentially intangible activities, which provide 'want satisfaction' when marketed to consumers and / or industrial uses and which are not necessarily tied to the sale of a product or another service".

Kotler and Armstrong (1991) defined service as: "An activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product."

The American Marketing Association (1960) has defined services as: "Activities, benefits, and satisfactions, which are offered for sale or are provided in connection with the sale of goods".

Quinn, Bausch, and Paquette (1987) comment that 'services include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser."

According to Gronroos (1990): "Service is an activity or series of activities of more or less intangible nature that normally, but not necessarily, takes place in interaction between the customer and the service employees and / or physical resource or good and / or systems of the service provider, which are provided as solutions to customer problems.

Services marketing may be defined as the process of identifying the needs of the potential customers and selling need – satisfying service solutions to their delight in a socially and environmentally acceptable manner. Services marketing is based on service quality and values. Instead of marketing physical products, as in the traditional sense of marketing, Service marketing gives importance to intangible aspects such as ambience in a historical place or museum, comfortable and safe transportation, or maybe even a beach view resort.

To present in a simple and lucid manner, *services are the feel – good benefits that one party offer to another party.*

As Services embrace a huge diversity of activities and include many intangible inputs and outputs – it is strenuous to comprehensively define service. A service may be considered as an act, process, deed or performance offered by one party to another. Although the process may be linked to a physical product, the performance is transitory, often intangible in character, and does not normally result in ownership of any other factors of production.
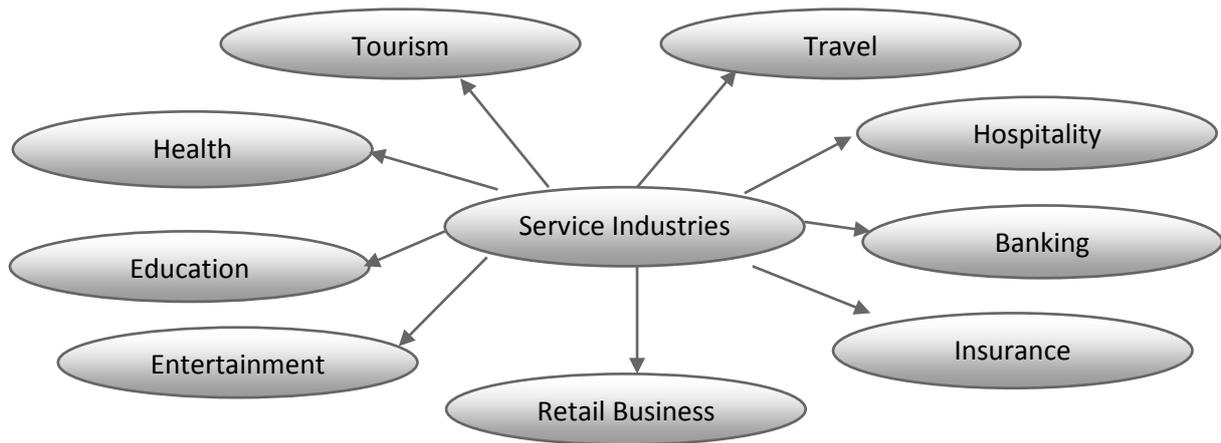
Important Facets of Services in the 21ˢᵗ Century

A service may also be treated as an economic activity that creates value and provides benefits for customers at specific times and places of convenience by effecting a desired change in, or on behalf of, the recipient of the service.

It is also apparent from the definitions of services that they are produced not only by service organizations but are also part and parcel of many manufactured-goods producers. For example, car manufacturing companies offer free services and warranties for their vehicles; industrial equipment producers offer delivery, inventory management and after-sales services. These services amply illustrate deeds, processes, and performances.

Need for Services Marketing

Service Marketers world over has realized the importance of satisfying customers by addressing their needs and also to motivate potential customers. Efforts are on by many service companies to broaden their customer base – creatively and profitably. The changing customer expenditure mix is also taken into account while formulating the services marketing mix. Without concrete marketing strategies the value of service and the make-up of service firms will not reach the prospective customers. Also, the relationship with service customers may be established through will conceived marketing plans. Retention of service customers is a difficult exercise, given the elasticity of demand, excellent options available, and insensitivity from their end. Lack of creativity and innovation in service delivery and distribution may push service firms to the wall.

Structure of the Service Sector

The services sector is characterized by its diversity. It comprises a wide range of industries that offer services to individual consumers and business customers, as well as

to government agencies and non-profit organizations. Entrepreneurial ventures in the realm of services are coming up at a swift pace. The size of the service sector is burgeoning in almost all economies around the globe. As a country's economy develops, the relative share of employment among agriculture, industry (including manufacturing) and services (including tourism, hospitality and information technology) changes dramatically.

In the context of emerging economies also the service output is growing very fast and often accounts for atleast half of the GDP. In advanced countries, knowledge-based services that are intensive users of technology and possessing highly qualified and skilled assets are turning out to be dynamic.

The Direct Recipients of the Service

The Nature of the Service Act	People	Physical Attributes
Tangible Actions	People processing (services directed at people) Wellness centres Restaurants / bars saloons, Passenger transportation Boarding & Lodging Gyms & Physical therapy.	Services directed at physical attributes, Landscaping / gardening, Cleaning services, Warehousing / storage Fuel supply disposal / cycling, Retail distribution.
Intangible Actions	Psychological processing (Services directed at minds of people) Religious faith, Music festivals, Management consulting, Arts & entertainment, Education & training, Counseling services, Information services, Psychotherapy, Media channels	Information processing (Services directed at intangible attributes) Banking, Legal services, Research, Software development, Insurance, Data processing, Data transmission, Securities, Investment, Programming.

An Outline of the Nature of the Service Act

Why Services Marketing?

The pertinent question that arose in the 70's and 80's is about the methods and strategies that may be devised for the marketing of services. In this backdrop, it became imperative that service management and service quality be studied and researched

extensively. The differences between services industry and manufacturing industry thus became a topic of debate. Many agencies and activities have led to the growth of services marketing, and many industries, companies, and individuals have stated the concepts, created frameworks, and developed strategies that defined services marketing.

The following are the major reasons for the academic and industrial development of service marketing.

Rise in Service – based Economy

The services marketing concepts and strategies have developed in response to the remarkable growth of service industries resulting in their increased importance to the global economy. The majority of the absolute growth in number of job opportunities is in service industries. Tourism, Hospitality, Entertainment, Information Technology, Health care, and Education and Training are among the industries offering awesome careers. World class service providers like Cox & Kings, Thomas cook, KFC, and Walt Disney, together with many medium and small service companies, are exporting information, knowledge, creativity, and technology to the world, in such a crucial phase.

The Dynamics of Services Marketing Management

A service business is considered to be one where the perceived value of the offering to the customer is determined more by the service provided than the product offered. So, the nature and scope of services pose manifold challenges for managers in the businesses. Such businesses include those that provide an almost entirely intangible offering, such as legal counsel, wellness, theatre, and businesses that offer both services and products such as retail outlets, handicraft centres, and restaurants.

Customer Service is an inherent part of services marketing. But many industries organize it as an ancillary function. When a firm recognizes the value of customer service, it will aim to offer many supplementary relevant services to the customers. Industries are realizing the importance of addressing service issues in today's society.

From a market segment or individual customer's point of view, the relative importance of different components of the service offering can vary from one customer to another. In this way a service must be considered from the point of view of many types of customers. For example, two users may pay the same amount for a trip in the house boat. A business person may take the trip as the house boat offer conference facility in its "Palace on Waves." A leisure tourist opts for the journey to relish the scenic view and traditional cuisine.

The service sector includes a wide range of industries such as information technology, hospitality industry, healthcare, banking, insurance, charities, the arts, and public utilities. While certain service sectors namely charities and the arts operates as non-profit-making concerns, other services such as media, hospitality, and banking services operate in a competitive, profit-making environment. Tourism, insurance, and hospitality industries are represented by global giants and small independently and locally operated companies. Some examples of larger international service companies configure hotel chains, banking and telecommunication, airlines, and IT. SME's in the service sector consist of restaurants, cabs and coach services, regional tourism services, motels, and way side amenities.

It could be deducted that the service sector is a multi-dimensional one with many organizations operating with diverse motives and plans of action.

The Services Marketing Mix

The concept of marketing mix for services marketing is a complex one in the sense that the characteristics of services are varied. The most important objective of a service enterprise is to achieve the best results. A properly conceived marketing plan is essential for developing strategies. The marketing strategies thus designed have to reach and penetrate target market through a variety of marketing tools mainly advertising and sales promotion. Pricing and distribution are also important. The various tools available with the service provide need to be blended or mixed judiciously to get the best results. Such uses of marketing tools are directed at the optimal use of financial, manpower, and technological resources.

The mixture of various marketing tools is called the marketing mix. Marketing mix is a mixture of elements which interacts and complements with each other to achieve the desired results.

John McCarthy, Professor in Marketing popularized the Marketing mix in terms of the 4Ps, viz, Product, Price, Place and Promotion. The terms were first introduced by Professor Neil Bordes in the year 1953.

Marketing mix helps the service provider to understand where appropriate marketing action can be initiated to improve the acceptability of a service and stimulate the demand within the market. A service company with an ideal combination of the 7P's can achieve the best possible results. Cowell in the year 1993 revised the marketing mix variables for service industries including tourism and hospitality. According to Cowell, in addition to the four original elements of product, price, promotion, and place, three more significant P's are to be considered which are:

People, Physical Evidence, and Process. The additional suggested P's refer to the activities that are essential to meet the challenges created by three unique characteristics of services namely intangibility, inseparability, and matching demand and supply.

The seven elements of service marketing mix are:

1. Product
2. Price
3. Promotion
4. Place
5. People
6. Process
7. Physical Evidence

1. Product

The product dimension of a service is mainly intangible. Therefore, service marketers need to identify, define, and illustrate what the service entails that it may require tangible manifests. Many services are custom designed products and the product dimension will be heavily dependent upon the human touch, on how it is delivered and perceived.

The service elements of the product are also very important.

2. Price

The pricing element is very closely associated with the perception of quality. Customers' perception of quality may be different and the intangible nature of the service product will make it difficult to evaluate.

Thus, service costing tends to be difficult and inaccurate. In quoting prices, some companies try to meet competition, some firms attempt to use standard costing, and a few others attempt to negotiate with the customers. Flexible pricing seems much more in vogue in the marketing of services than in the marketing of goods.

3. Promotion

The promotion dimension of the marketing mix is very closely associated with the product features. In the case of services, the focus is on promoting an image. Since

services cannot be stored, the promotion message communicated through advertising, sales promotion, publicity, public relations, and personal selling needs to focus on spreading as well as creating demand.

4. Place

The place or distribution channels for services, in certain ways, are a 'virtual' concept. There is mostly no physical distribution system. Yet, because services are performed, there must be a suitable environment. Therefore, the location becomes important. Channels of distribution for services are direct and short, that is from the principals / intermediaries to the end –users.

5. People

Managing people is part and parcel of the service marketing mix. There are lots of players or people involved in the delivery of service. The problem of service industry lies in inseparability of the production / consumption interface, and therefore the satisfaction of not only the customer, but also the service provider and contact staff becomes extremely important.

In order to manage this aspect of the marketing mix some direction needs to be given to the appropriate selection, orientation, and training of staff and how to manage and communicate with the different levels of staff and management.

People may need up to date training/specialized training programmes and FAM visits for developing job related skills and competencies.

6. Process

The process element of the service marketing mix is associated with the way in which the service is delivered to the customer. 'How the service is delivered?' is the key question. The policies and procedures that ensure an impeccable and delightful service is the main concern while addressing this element of the marketing mix. An 'eye for detail' is what service marketers must resort to while considering process.

7. Physical Evidence

Physical evidence is closely associated with the place and distribution of the marketing mix. This is extremely important for services as the offerings are delivered in a physical

environment or site, which may include a building, lighting, paint, colour, ambience, customer orientation, queues, crowding, noise, interest stimulation, and participation. Physical evidence acts as a symbol for the customer to evaluate the nature and value of the service. It will contribute to enhancing the 'brand' and 'reputation'.

Dimensions of Services Marketing

The most widely recognized dimensions of services marketing deeply associated with service management, delivery and evaluation include:

1. Technical
2. Functional
3. Intangible
4. Tangible
5. Physical facilities and Service- scapes
6. Accessibility
7. Reliability
8. Responsiveness
9. Communication
10. Competence
11. Courtesy
12. Credibility
13. Security
14. Empathy
15. Understanding the Customer and Image

Marketing Management Process for Services

American Marketing Association (AMA) defines Marketing as: "The process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives."

The marketing management process for Services comprises:

1. **Organizing marketing Planning**- Marketing planning is usually preceded by analysis of market. A clear-cut planning is required for developing marketing strategies.

The service firm as part of planning must define its specific type of businesses, identify the customers, know them well, and collect feed-back on the benefits sought, study the competitors, chalk out methods to cost – effective operations, develop new service offerings, and carry out in-depth research.

2. **Analysing Marketing Opportunities**- Service marketers need to determine what specific needs can be satisfied by the type of service provided and what factors of service offered are considered most important by customers. Identification of needs that are currently not addressed is also important.

In a dynamic marketing environment, the service marketer must determine new marketing opportunities. Marketers of services must constantly monitor their environment.

3. **Selecting Target Market**- Selecting target market is important for the service company to understand their customers, know their tastes, preferences and spending capacity, and their overall profile. Moreover, such an exercise will help the firm save on their time, cost, and energy. The steps include:

   ➢ Segmenting and targeting

   ➢ Positioning

4. **Developing the Service Marketing Mix**- In service marketing, the formulation and use of the 7Ps of the marketing mix (discussed in this chapter) is very significant. The short-term aspects of the use of marketing mix relates to price reduction, aggressive promotion, new service attribute development, and special offers and incentives.

The long-term aspects relate to meeting the goals and objectives set aside for long duration plans in prospect. Study of all kinds of trends in the market involving the external environment like natural, economic, social, environmental, legal, and technological is essential.

5. **Managing and Controlling the Marketing Activities**- The service companies need to be fully equipped as regards people and resources for successfully carrying out their marketing plan. The willingness and pro-active participation of employees must been ensured. Staff turn-over is a problem encountered by the service sector. This does not augur well for the service firms. The interaction of contact staff with customers may make or mar the business and therefore the service provider has to be extremely cautious in encouraging and training the staff to put their best effort and put customers first.

Service as a Business Force in Manufacturing

In the formative years of services marketing and management, most of the interest and impetus came from service industries such as health care, banking and insurance. Now, manufacturing – based industries such as automobiles and ICT have also realized the need to provide quality service worldwide. The needs and challenges of all organizations, as they advance toward delivering quality service have necessitated the development of special concepts and approaches for services marketing.

It is no larger the choice of firms to provide quality services. The fast development of technologies makes it difficult to gain strategic competitive advantage through tangible products alone. And, customers are more aware and demanding. They not only expect the finest high quality and durable goods but also expect high levels of service attached to the products.

Industries have recognized the need to focus on service to keep – up with rising customer expectations and to compete effectively. It is to the credit of some companies that they have used service extremely well for competitive advantage.

Service Marketing for Deregulated Industries and Providers of Professional Services

Both deregulated industries namely airlines, telecommunications, and banking and professional service providers such as lawyers, chartered accountants, architects, dentists, etc. have changed the way they operate.

In the former case, post deregulation, there was certain turmoil in the industries, accelerating the need for more refined, customer – based, and competition- sensitive marketing. Providers of professional services have also adopted new concepts and approaches for their businesses, as these industries have become increasingly competitive, and as professional standards have been modified to allow some amount of advertising. Certain service industries such as health and wellness, traditionally dominated by an operation perspective have also realized the need to be more customer focused and are implementing new approaches for identifying customer's needs and offering delight.

Technological Advancements

Owing to the development of IT – based technologies, a host of new service concepts have exploded into the market place. Video Conferencing equipments, Tablet PC's, and Android phones are examples of technology – based service concepts that have substituted the traditional ways of providing similar services.

In this transition phase, marketing has played a vital role in educating customers about the service concepts, and advising them on its operations. In the case of many modern gadgets, customers need considerable education before they are willing to try new services.

Educating customers on how to use the new technologies and communicating the benefits they can draw from them are persisting challenges for service marketers. Furthermore, technology plays an important role in improving the efficiency of service delivery and in the development of new service concepts.

Service Marketing – A Different Ball Game

The skills and experiences of a marketer operating in service industry is totally different from marketing in packaged – goods industry. Marketing and managing service businesses warrants new concepts and approaches. This is mainly because the issues and dilemmas faced by service businesses are very different. For example, the problem of consistency in delivering quality service when it is offered through 'human touch'.

Tourism as a Service

Tourism is centered on providing quality services to actual and potential tourists. A hotel provides lodging facility, a theme park offers wholesome entertainment, a tour operator disseminates comprehensive information about a tourist destination and designs an excellent tour itinerary, a travel agent books tickets and makes all the ground arrangements for tourists.

In contrast to the manufacturing industry which provides physical, tangible items to customers, tourism is all about taking care of the customers more on a personal view. Tourism industry predominantly provides services rather than tangible objects.

Tourism as an offer is an ideal blend of goods and services. But it is often categorized as a service because of the dominance of a more personal touch in terms of the offerings of service providers directly impacting the customers.

Tourism is travel for pleasure, recreational, health or business purposes. Tourism is now popularly accepted as a global leisure activity.

In 2011, there were over 983 million international tourist arrivals worldwide, experiencing a growth of 4.6% when compared to 940 million in 2010. International tourism receipts grew to US$1.03 trillion in 2011.

Tourism was recognized in the Manila Declaration on World Tourism 1980 as: "an activity essential to the life of nations because of its direct effects on the social, cultural, educational and economic sectors of national societies and on their international relations." Tourism brings in good revenue and accounts for 30% of the world's export of services. It also generates opportunities for large scale employment in the service sector of the economy. Tourism is strongly affiliated with the service industry, by offering transportation service (such as airlines, cruises, coaches and cars), hospitality services (such as accommodation in hotels and resorts), and entertainment (such as amusement parks, casinos, shopping malls, water and theme parks, spas, music and dance festivals, and theatre shows).

Tourism has always been a major social phenomenon of various societies. Tourism is incited by the natural urge of every human being for new experience, adventure, seeking knowledge, curiosity, education, and entertainment. In order to understand each other's cultures and values as well as to cater to several other social, religious and business interests, destinations have developed many tourist spots and infrastructure facilities. Further, excellent progress in communication and transportation network globally has encouraged people to venture out to nearby and long haul tourist centers. It has facilitated the trade and commerce between the different regions of a country and between the different nations. Subsequently, over the years, tourism has acquired the status of a service industry. As an important service oriented sector, tourism has made rapid strides globally in terms of gross revenue and foreign exchange earnings. Tourism is a composite make-up of service providers, both public and private, which includes travel agents and tour operators, air, rail and sea transportation operators, tourist guides, hospitality enterprises such as hotels, guesthouses, inns, restaurants and shops, etc. They are involved in catering to the diverse interests and requirements of domestic and international tourists.

Tourism as a service intensive industry focuses on the customer's service experiences not only during their stay, but also before and after it. Since most tourism products are reserved and paid for in advance, tourists have to essentially rely on up-dated and accurate information available.

Tourism products are service products, generally consisting of multiple and strict services and thus often referred to as a service package or bundle. Characteristically, these bundles are build around a main (or core) service, framed by auxiliary (or peripheral) services as add-ons (Kandampully 2002, Gronroos 2001, Normann 2000). Moreover, tourism product packages are seldom offered by one single service provider, but are rather linking together various services provided by different local and small, and medium scale service providers.

Successful tourism destination combines diverse services, which is structured as the 6A's of tourism. They are Attractions (natural, artificial or cultural), Accessibility (refers to transport), Amenities (characterize all services facilitating a convenient stay – for example gastronomy), Available packages (refer to the availability of service bundles to direct the tourists attention to certain unique features of a respective destination), Activities (such as hiking, swimming, and skiing) and Ancillary services (those services of daily use, which are not primarily associated with, tourism (e.g. communication, laundry and health care) Although these services are offered by independent organizations within a tourism destination, a holistic destination management is essential for the growth of tourism. Furthermore, in the tourism sector the construction and design of services aim to create memorable and satisfying touristic experiences.

Tourism as a service industry is dependent on the quality of customers' service experiences and their consequent assessments of satisfaction or dissatisfaction. The unique features of service products like intangibility, inseparability, perishability, etc. can be attributed to tourism.

Services marketing has expanded the traditional marketing mix of 4P's to 7P's by adding people, processes, and physical evidence to the tourism marketing mix. The components of the new marketing mix are interrelated and can be controlled by the industry. People, processes, and physical evidence are vital components in managing the quality of service in tourism and creating customer satisfaction. Tourism offers services to large and diverse set of groups and individuals and it being multifaceted there are many complex service processes involved.

In tourism industry, companies offering services attempt to organize and deliver on an elaborate customer value proposition. A huge market base seeking activities ranging from online ticket booking to airline services, supplementary accommodation, cruises, and adventure sports has developed around the tourism industry. This mega market itself spans various industries. Competition is part and parcel of this set up and hence firms have to continuously create and innovate in order to retain their customers. In such a competitive environment, a company not only has to deliver high quality of services but also has to present it to the customers in an impressive manner. Thus, design and delivery to apt marketing techniques for the service offerings will be able to distinguish one firm from another.

Modern day tourists are looking for top-quality products and value – for money services. The quality of a service is an essential factor in tourism that determines the service provider's ability to attract more customers. Unlike the quality of products which may be

measured objectively, it is difficult to measure service quality. Market and Crompton (1990) define service quality as "the relationship between what customers' desire from a service and what they perceive that they receive." Service quality is also part of a plan conceived to satisfy the customers so that they hold optimistic attitudes towards the service they have received. The quality of the service plays an important role in the process of delivery and thus is the standard used to assess the effectiveness of a particular tourism organization. Service quality is not manifested physically, though it is a crucial area of interest to service providers in tourism.

Characterization of Services

For services marketing, the distinguishing features or characteristics of services are important in the design of an ideal marketing mix. The core characteristics are now widely recognized as intangibility, inseparability, perishability, variability, time factor, and diverse forms of distribution channels. These are all described as follows:

Intangibility

Even though many services include tangible aspects such as an airline or bus ticket, cuisine, seats in an amphitheatre or a restaurant table, the performance of service leading to a customer's experience is intangible. What the customer is buying is a performance provided by the seller which cannot be verified by any of the human senses. However, consumers often infer the quality of service from place, people, price, equipment, communication and materials associated with the service.

The intangibility of services makes advertising and promotion very difficult than for goods because the marketer must communicate an idea or concept rather than a physical object. Marketers usually develop two methods to facilitate the communication of the benefits of a service. They are

(1) Forming a tangible representation of the service, and
(2) Turning the focus on the service provider rather than on the service.

The intangible nature of services often means that customers have difficulty evaluating and comparing services. As a result they may use cost as basis for determining quality and they may give importance to personal information sources. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted or touched in the same manner that we can see tangible products, intangibility poses several marketing challenges. Hence services cannot be readily displayed or easily communicated to customers.

Inseparability

Many services require customers to participate in making the service product. While products are generally produced, then sold, and after that consumed, services are usually sold first, than produced and consumed at the same time. For example, the airlines, when the consumer buys the air ticket first which is produced and consumed at the same time as the flight takes off and the consumer is on the plane. As services are consumed at the same time they are produced, they cannot be stored, inventoried, or transported.

Thus, the distribution of services becomes much simple than the distribution of goods. If the service is more complex or customized, centralized mass production is difficult. For must services, both the buyer and the seller need to be at the same place at the same time for the service to be actually delivered. For example, the hotel room which is sold to the customer, i.e., delivered, when he is present and occupies the room.

Services vary from one firm to another and from one time to another. Hence it is very difficult to maintain the same standard of service delivery. Hence it is very difficult to maintain the same standard of service delivery. The service delivery standard also depends on the provider who delivers it. Also, the difference between one service and another lies in the quality of employees who serve the customers. This is mainly when customers come into contact with service personnel as in the case of a restaurant or have interface with other customers.

Service companies need to devote special attention to selecting, training, and motivating those employees who come into direct contact with the customers. Apart from possessing the requisite technical skills demanded by the job, these employees also need to possess good inter personal skills.

Service industries tend to be more labour intensive and are subjected to less standardization than products. A tourist might find that a guide in a museum was very rude but the one engaged in an adjacent monument was cordial.

High Service variability means that the consumer faces greater uncertainty and risk in purchasing services and the firms must control quality to ensure prompt service. Profitability in services marketing depends on frequent purchases. If the service variability is high, the quality of customers will take a back seat. Standardization holds the key in this aspect.

Perishability

Given the intangible nature of services, they cannot be stored, transported, ware-housed or re-used. An amusement park owner cannot store the rides so that when a rush occurs on a sunday morning all customers can have their rides at once. Thus, the availability of enough opportunities for service delivery at exact times is significant for service managers.

If services are not consumed when it is offered they go waste. An airline with so many empty seats suffers loss.

As there is no inventory of services, they have much more difficult time regulating supply to meet demand. This is because demand is rarely steady or predictable enough to avoid service perishability. The service marketer can try to overcome the challenges of perishability by trying to match supply and demand by

(1) Varying supply in accordance with demand (service supply management)
(2) Maintaining supply fairly constant but trying to ease out demand to avoid excess capacity (service demand management).

Time Factor

Most of the services are delivered in real time while customers are physically present. Customers place value on their time and some of them are willing to pay extra for quick service. Importantly, busy customers expect service to be available at their convenience rather than it suits the service provider. Responding to this more and more service firms are offering extended hours of service with some of them even remaining open 24x7.

Due focus is also laid on elapsed time. Even when customers place an order for certain services to be carried out in their absence, they expect it to be completed and delivered within a particular time. Customers being time sensitive, the onus is on the service companies to consider speed as an element of quality. Service marketers need to understand customers' time constraints and priorities, which vary from one market segment to another, and adopt methods to avoid wastage of time and concentrate on quick delivery.

Diverse Forms of Distribution Channels

Service companies usually have their point of production and point of consumption at the same place. Sometimes they use electronic means to distribute their services as in electronic fund transfers, or media broadcast.

It some cases such as banks, customers are presented with various options in using the services like ATM counters, online banking, and visiting in person.

Classification of Services

Service businesses are pitted against each other in a diverse economic environment. The economic environment is characterized by the existence of a large number of small and medium sized firms – no one having a significant market share. Hence no firm can dominate the service industry. A clear-cut understanding of the competitive dimensions and limitations of the service industry is essential for a firm to formulate its strategies.

Five schemes are taken into account to classify services in ways that provide strategic inputs which can be employed to develop generic strategies that leverage a firm to out – perform its competitors. Developing a classification system can help understand services better and also can offer insights on how marketing tools and techniques can be effectively applied.

Considerations for Services Classification

I.   **Classification based on the degree of Involvement of the customer:-**

1. **People process Focus** – People-focused services are those where the provision of employees contacting the customers is the main element in service delivery.

2. The customer is highly involved in the services process and needs to be physically present in order to experience the service.
   E.g.: Educational Institutions or training centers.

3. **Possession processing** – In this case the customer is not required to be present, but the articles/ property has to be submitted to the service provider
   E.g.: Automobile

4. **Product / process Focus** – A product – oriented service is where the stress is on what the customer buys. A process – oriented service is where the emphasis is on the manner in which the service is delivered to the customer.

5. **Mental Stimulus processing** – This is a way in which the attention of the customer is drawn to the service in order to experience the service.
   E.g.: Advertising

6. **Equipment Focus** – Equipment focused services are those where the provision of certain equipment is the core element in the delivery of service.

7. **Information Processing** – This type of service requires service personnel to collect information, assess, interpret, and offer appropriate advice to the customers

    E.g.: Market Research

8. **Transaction Time** – A high distance contact is where the customer spends hours, days or weeks in the service system for a transaction. Low customer contact is where the contact with the service system is for a short duration.

9. **Degree of Customization** – A high degree of customization is where the service process can be fine-tuned to suit the needs of individual customers.

10. A low degree of customization is where there is a non – varying standardized process; the customers may be offered several ways, but their availability is pre-determined.

11. **Degree of Discretion**

    a. A high degree of discretion is where the contact staff can exercise their wisdom in altering the service package or process without referring to the higher ups.

    b. A low level of discretion is where changes in service provision can be made only with due ratification from the superiors.

12. **Back- office & Front** – office oriented service.

    a. A back office oriented service is where the proportion of front office (customer contact) staff to the totaly staff is minimal.

    b. A front – office oriented service is where the proportion of front office staff to total staff is higher.

II. Classification based on Service Tangibility

a. **Highly tangible** - The customer obtains a tangible product in this case.
   E.g.: A two – wheeler on rent.

b. **Service linked to tangible goods** – In this case some organizations offer a warranty period to customers who purchase the products from them.
   E.g.: a handy cam

c. **Tangible goods linked to services** – Certain services offer a tangible product along with the service requested by the customer.
   E.g.: an airlines offering in- flight magazines and meals

d. **Highly intangible** – Such services which do not provide customers with any tangible product.

E.g.: an ayurvedic massage centre

III. Classification based on Skills and Expertise

a. **Professional services** – When the service provider has to be formally trained to deliver the service.

E.g.: lawyer, doctor, pilot

b. **Non- professional services** – In these cases the service provider does not have to undergo any training to deliver the service.

E.g.: Duty Free Shops

IV. Classification based on Business Orientation of Service Providers

a. **Not – for – profit organization** – When the main objective of the service provider is to serve the society and not to make profit.

E.g.: social service organizations, NGO's

b. **Commercial organizations** – When the main objective of the service providers is to earn revenue and make profit.

E.g. insurance firms.

V. Classification based on Types of End - User

a. **Consumer Services** – These are purchased by individual consumers for own consumption.

E.g.: health care

a. **Business to Business** – These services are sought by the firm.

E.g.: advertising

b. **Industrial services** – There are based on contracts between organization and service providers.

E.g.: Electrical Maintenance

VI. Classification based on Method of Service Delivery

Services with multiple distribution channels have significant management implications for ensuring quality and consistency in the service offering.

Service delivery is of importance to the customer's overall perception of service quality. Services that generally require the customer to visit the service provider have a greater chance to control the delivery experience.

E.g.: teleshopping, online banking, Fax, EDI (Electronic Data Interchange), GDS (Global Distribution System), GSA (General Sales Agent)

VII. Classification Schemes

Christopher Lovelock has propounded the classification schemes which represent one of the aspects mentioned below.

1. Nature of service Act.
2. Type of relationship that the service organization has formed with its customers.
3. Opportunities for customization and discretion on the part of the service provider.
4. Nature of demand and supply for the service.
5. Methods and channels of service delivery.

The Service Marketing Triangle

SERVICE COMPANY

(b)   (a)

Internal Marketing   External Marketing

CONTACT STAFF   **CUSTOMER**

(c)

Interactive Marketing
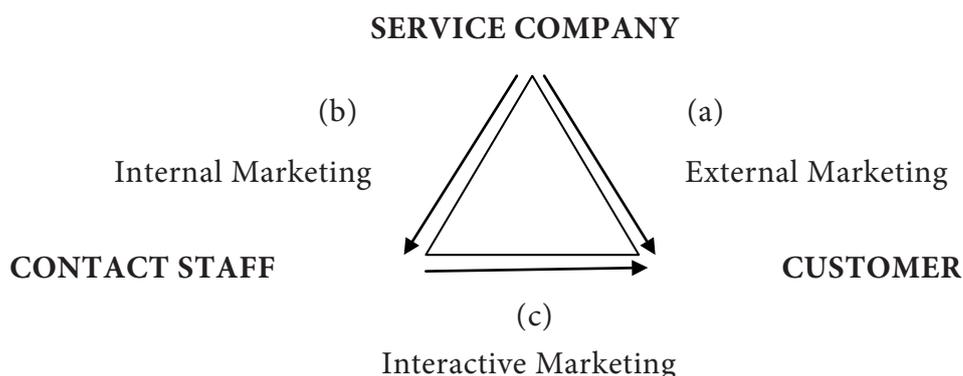
The Service marketing triangle consists of three elements of the service delivery process, namely the service providing company, the contact staff, and the customers.

a) **External Marketing** – The company disseminates information about its products and services to the external customers by means of marketing communication mix

comprising advertisement, publicity, public relations, sales promotion, and direct selling.

b) **Internal Marketing** – Internal Marketing is the interaction between the firm and its front office staff by means of which the service provider enables the employees to deliver quality service to the customer.

c) **Interactive Marketing** – Interactive marketing is important as it determines retention of the customer by service companies. All of these play a key role in the success of Services Marketing.

Building Service Aspiration

Aspirations play a pivotal role in the generation of demand. Aspirations create ways for the offering of quality services to the customers. The service aspirations of users are heavily dependent on the creation of demand, expansion of market and tapping of the market potentials. The service providers while developing strategies need to build service aspirations so that the process of demand generation gains momentum. The impact of this is great as the employees tend to offer the best of services to the users as it is promised. Service aspirations have to be created to bridge the gap between services promised and services offered. Service companies must take profound interest in translating the aspiration into demand, lest there will be stagnation in demand. The professionals working in an organization take the responsibility of building the service aspirations

The service aspirations of an organization are percolated to the employees engaged in offering the services and instill in them the commitment to deliver the best. There are many cases before us when the reputation of service firms is tarnished due to lack of application from the part of employees to fulfill the promise of the companies. This can be mitigated by building service aspirations as a periodic benchmark, when the employees get proper orientation and strive hard to achieve the result.

Service aspirations of a service company in directed at developing and motivating its human resources. Employees have well defined roles and they get exposed to adequate training. The building of service aspirations requires employee orientation. This act as a strong foundation for serving customers. Incentives also play a vital role in uplifting the morale of service staff.

While building service aspirations, the service providers must create the feeling in the employees that they are the brand ambassadors of the firms and the quality of service has to be promoted by them.

Yet another facet of service aspiration is on behalf of the customers. How the customers are oriented as regards the services offered by the firm? What is their perception about the quality of service offered?How do they judge the service capabilities of the staff? How do they consider the organization image? Thus, it is important to view service aspirations at the customers' end too.

Service aspirations from the principal – customer point of view can be build by networking (finding them and emotionally connecting with them), referral marketing (word of mouth- getting new customers from existing customers), and building credibility.

Steps in Building Service Aspiration

Step 1: Define the Service Process and Develop Blue Print

Developing blue prints at various levels to be considered for crucial stages of service delivery of firms is extremely important. Problem areas or short falls can be detected when specific blue prints are shared with the concept blue print which would also include unique features. Identifying the process to be mapped will be determined by the underlying purpose for building the blue print in the first instance.

Step 2: Identify the User or Segment Experiencing the Service

User's needs are different and therefore will require variations in the service or product features. Thus, blue prints are most useful when it is developed for a particular customer or segment, taking into account the fact that service process varies across segments. At a very abstract or conceptual level it would be possible to combine customer segments on one blueprint. After obtaining the particulars about the segments, separate blue prints should be developed to avoid any discrepancy and to maximize their productivity.

Step 3: Map the Service Process from the Customer's End

This step involves listing out the choices and actions that the customer performs or experiences in purchasing, consuming, and evaluating the service. The extent of customer impact with respect to the service can be determined from this. The processes and steps that have no impact can be avoided. For example, details of tourists who involved themselves in white water rafting in Manali can be recorded, highlighting each stage and encounter in the total experience. These detailed observations combined with customer surveys help the operator to identify the important actions and activities of this unique event from a tourist's point of view. The blueprint may be used to identify points for improvement to attract global adventure enthusiasts.

Step 4: Map Contact Staff Actions

This involves questioning front line employees on their activities performed before customers and the activities undertaken behind them. Even the role of technology in service delivery will be mapped.

Step 5: Link Contact Activities to Required Support Functions

In this process, the direct and indirect impact of internal actions on customers becomes apparent. Internal service processes gets added importance when viewed in connection with their link to the customers.

Step 6: Include Evidence of Service at each Customer Action Step

Finally, the evidence of service can be included in the blue print to demonstrate what the customer sees and receives as tangible evidence of the service at each step in the customer experience. The photographic blueprint including photos, slides or video clippings of the process can be very useful at this stage as well to support in analyzing the impact of tangible evidence and its consistency with the overall plan and service positioning.

Consumer Behaviour in Service Encounters

Services marketing concentrate on developing a thorough understanding of the buyers' behavior. It is crucial to realise that high-contact encounters between customers and service organizations differ radically from low–contact ones. Some services such as hospitals, hotels and airlines require customers to have active contact with the principals, including visits and direct interface with employees.

Customer face difficulty in judging services before purchase, but they do form certain expectations. Post purchase, marketers need to examine user behaviour and usage rate. It is important to know how the customer interacts with the service facilities, contact staff, and even other customers, especially in the case of high- contact services. Also, marketers must find out whether the service experience and its benefits have matched the customers' expectations.

Customer Involvement in Service Encounters

A service encounter is a period of time during which customers experience/ interact directly with a service. Some service encounters such as a cab ride or withdrawal of money

are very brief and consists of few discrete steps, while some other like spending time in a film park for a day involves multiple steps. It is difficult to improve service quality and productivity without fully understanding customer's involvement in a given service environment. Quick service delivery and avoidance of unnecessary steps to avoid wastage of time and labour are often important ways for a firm to enhance the perceived value of its service. Service managers must consider whether customer expectation change during the course of service delivery. They must ensure the consistency of service performances.

Richard Normann touched upon the metaphor "moment of truth" from bull fighting to show the importance of contact points with customers.

Normann writes: "We could say that the perceived quality is realized at the moment of truth, when the service provider and the service customer confront one another in the arena. At that moment they are very much on their own…. It is the skill, the motivation, and the tools employed by the firm's representative and the expectations and behavior of the client which together will create the service delivery process".

The relationship between the customer and service provider can be made or marred depending on the interface and subsequent delivery of service.

The analogy points out that the 'life of the relationship' is at stake. One unfortunate (mis) encounter can have a devastating outcome. The desired outcome is a mutually valued, long-term relationship.

Types of Service Encounters

High – contact services – This type of services involves personal visit by- customers to the service facility. In this way, customers are actively involved with the service companies and its personnel during service delivery. All people-processing services (discussed earlier in this chapter), are high-contact.

Low-Contact Services

In contrast, low – contact services involve little, if any, physical contact between users and service providers. Instead, contact takes place through physical distribution channels – such as telephone and internet. Many high-contact and medium – contact services are being transformed into low contact services as customers engage in home shopping, fulfills their banking and insurance needs online, and purchase products through e-commerce.

High

Highlights Encounters with service personnel

- Tourist Guide
- Wildlife Sanctuary
- Hospital
- Health and Wellness centre
- Tourism Information Centre

- Safaris
- Multi-Cuisine Restaurant
- Adventure Sport
- Travel Agent
- Budget Hotel
- Amusement Parks
- Fast Food
- Cruise

- Ecotourism facility
- Management Consulting
- Legal Consulting
- Telephone Banking
- Car Repair
- Casino

- Tourism Literature
- Dry Cleaning
- Golf Course
- Airport
- Cable Car
- Multiplex
- Snooker Parlour
- Railways
- Subway

- Travel Insurance
- Dish TV
- Online Ticketing

- Virtual Tourism
- Internet Banking
- Mail order Shopping
- E-Commerce and web-based Service

Highlights Encounters with Equipments

Low

Levels of Customer Contact with Service Companies

The Purchase Process for Services

Customers go through a complex purchase process before buying a service. This process comprises three identifiable stages – the pre-purchase stage, the service-encounter stage, and the post-purchase stage.

Pre-Purchase Stage

The discussion to purchase and use a service is made in the pre-purchase stage. Individual needs and aspirations are very important here because they influence evaluation of alternatives. It the purchase is of low cost and low risk, customers may move quickly to selecting and using a specific service provider.

But when the cost is more or the service is experienced for first time then a thorough *information search* will be resorted to by the customer. The following step will be to identify potential suppliers and then compare the benefits and de-merits of each option before taking a final decision.

Service-Encounter Stage

In the event of making a purchase decision, customers seek to experience more contacts with their chosen service providers. The service-encounter stage often starts with submitting an application form, seeking advanced information, requesting a booking, or giving an order. Contacts may also take the form of personal exchanges between customers and service employees or impersonal interface with computers or machines. In high contact services such as restaurants, hotels, transportation companies, and health care, customers may become actively involved in one or more service processes. More often, these customers experience a host of varied attributes during service delivery, each of which provide hints about service delivery.

Post-Purchase Stage

This stage is a continuance of what the customers started doing in the service encounter stage, i.e., evaluating service quality and their satisfaction/dissatisfaction with the service experience. The result of this will influence future decisions, such as loyalty to the provider that delivered service and whether to transmit positive or negative feedback to family members and friends. Customers evaluate service quality by comparing their expectations with what they perceive they received from a particular service provider. When customers feel that their expectations are met or they have received more than they expected they are delighted and deem the service to be a quality one.

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┌─────────────────────────────────────────────┐
│   Feeling and Recognizing a Need or Desire    │
└─────────────────────────────────────────────┘
                      │
                      ▼
┌─────────────────────────────────────────────┐
│             Information Search                │
└─────────────────────────────────────────────┘
                      │
                      ▼
┌─────────────────────────────────────────────┐
│ Understanding Product Value, Quality, and services │
└─────────────────────────────────────────────┘
                      │
                      ▼
┌─────────────────────────────────────────────┐
│         Decision-Making as to buy or not      │
└─────────────────────────────────────────────┘
                      │
                      ▼
┌─────────────────────────────────────────────┐
│      Experiencing and Evaluating the purchase  │
└─────────────────────────────────────────────┘
              │                   │
              ▼                   ▼
┌──────────────────────┐  ┌──────────────────────┐
│ Cognitive Dissonance │  │   Customer Delight    │
└──────────────────────┘  └──────────────────────┘
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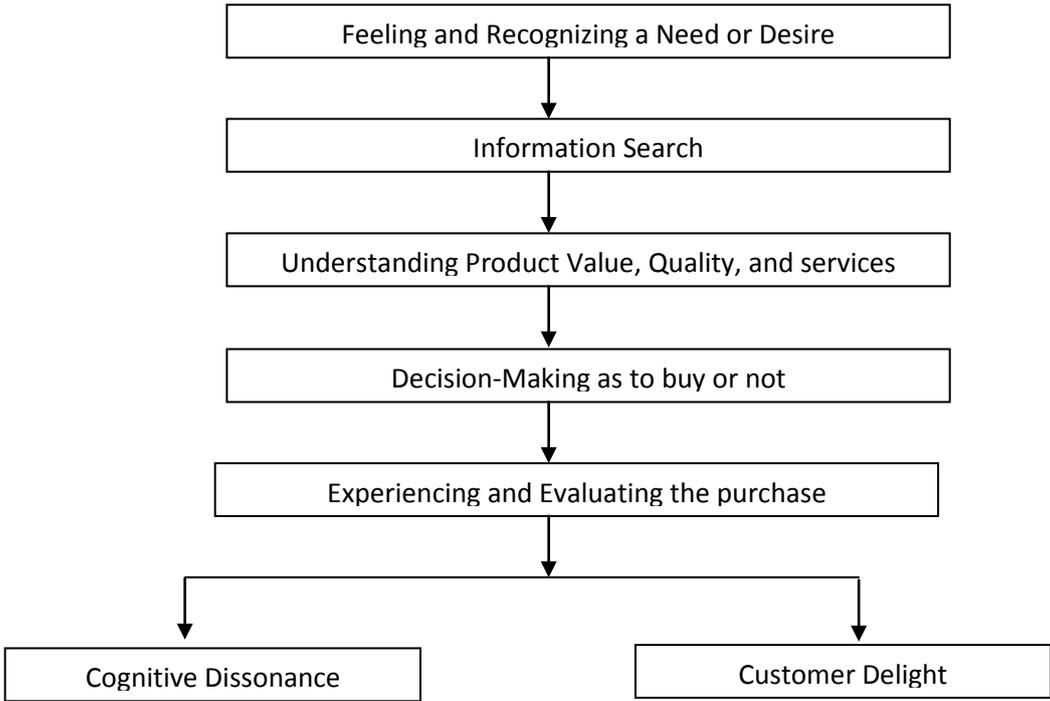
The Steps of the Purchase Process

For this the price / quality relationship should be acceptable and other personal and situational factors must be positive. Such customers turn out to be repeat customers and remain loyal to the supplier. If the service expectations are not met customers may complain, file a case, suffer in silence, or change to another service provider.

Summary

It is a fact that services dominate the modern economies of the world. Services of different hues and colours are all around us. Services are responsible for the creation of a great majority of new jobs, both skilled and unskilled, around the globe. As dealt with in this chapter, the service sector comprises a wide variety of industries, including many activities and processes provided by public, private, and non-profit organizations. It is very evident that service companies differ from manufacturing organizations in many important aspects and hence warrants distinctive approaches in marketing and other management functions. There exist important differences between goods and services.

This chapter also explores the need for services marketing in the backdrop of a rise in service – based economy. Service is indeed emphasized as a driving force for various other businesses including manufacturing. Industries have recognized the need to focus on service to keep up with the accentuating customer expectations. Ensuring quality service holds the key for gaining strategic competitive advantage for the service providers. Technological advancements too have revolutionised the service firms to a great extent.

Tourism as an offer is an ideal blend of goods and services. The characteristics of services such as intangibility, inseparability, variability and perishability are perfectly fitting tourism. As an important service oriented sector, tourism has made rapid progress, world over, in terms of revenue generation and foreign exchange earnings. Modern day tourists are keen to experience top-quality products and value-for-money services.

This chapter also outlines the various considerations for services classification based on degree of involvement of the customer, based on service tangibility, based on skills and expertise of service personnel, based on business orientation of service provider, based on method of service delivery, and based on types of end user.

Building service aspirations is a key factor for the sustainable functioning of the service firm. The steps involved in building service aspirations such as

1. Define service process and develop a blue print,
2. Identify the user or segment

3. Map the service process from the customer's end

4. Map contact staff actions

5. Link contact activities to required support functions, and

6. Include evidence of service at each customer action step, are described in this chapter.

From the services perspective, understanding and managing service encounters between customers and service providers is central to creating satisfied customers who are keen to enter into long-term relationships with the service organizations. How customers evaluate, select, and use service have to be comprehended well by the services marketers. The types of service encounters- high contact services and low contact services- are explained in this chapter. Also dealt with is the ways to manage service encounters to create satisfied customers.

Self Assessment Questions

1. Define services. Explain the characteristic features of services.

2. Elucidate on the importance of time in services.

3. Differentiate between goods and services.

4. Enumerate the needs for services marketing.

5. State and explain service classifications.

6. Differentiate between high contact and low contact services

7. Explain why services tend to be more difficult for customers to evaluate than goods.

8. Give reasons for tourism being considered part and parcel of service industry.

9. Explain the service marketing triangle

10. Outline the significance of building service aspirations.

11. What are the steps in building service aspirations?

12. Explain the stages involved in the purchase process for services.

CASE STUDY

IRCTC and the Dynamics of Marketing Rail Tourism

Indian Railway Catering and Tourism Corporation (IRCTC) was instrumental in introducing and promoting rail tourism in the country. A dynamic marketing strategy in association with public and private agencies, tour operators, transporters, hoteliers, GSA's and local tour agents has been developed by IRCTC to give shape to rail tourism. IRCTC

is a company wholly owned by the Ministry of Railways, Govt. of India. IRCTC presently has a mix of proprietary and monopolistic business lines that are clearly linked to Indian Railways and offers IRCTC access to different markets as well as business lines. For instance, IRCTC exclusive access from Indian Railways for food and beverage services encompassing trains and railway stations and is the only recognized entity for offering online ticketing services. But in other business lines such as hospitality and tourism, IRCTC is facing stiff competition from other players. The mission of IRCTC is to serve customer delight in travel, tourism, and hospitality by subscribing to the best global practices and technological know-how.

The tourism products and services offered by IRCTC are value-added packages, special coaches, charter trains, budget hotels, and car rentals. The corporation has set up food plazas with private partnerships. Apart from manufacturing packaged drinking water (Rail Neer) for Indian Railway passengers, IRCTC manages the Departmental Catering Units taken over from Indian Railways. IRCTC also manages onboard catering services and static catering units on the Indian Railway network through licensed operations.

The services of IRCTC also consist of operating special charter coaches and promotion of value -added tours and other tourist trains. IRCTC has set up an all India Call Centre – "dial 139". The Internet ticketing program handled by IRCTC is an extended marketing arm of Indian Railways. On September 9, 2004 IRCTC introduced reservation services through mobile phones. This service is available for all GPRS and CDMA subscribers in India. By using SMS Rail 139 service customers can avail services like PNR enquiry, fare enquiry, trains' running time, accommodation availability, etc. The Bharat Darshan Tourist Train-Village on Wheels is a brand new venture organized by IRCTC to lend a helping hand to the budget travelers to discover their motherland. The itinerary of this tourist train includes destinations of cultural, historical, and religious interests. IRCTC has established a joint venture with the premier travel company Cox & Kings for managing the 'Maharaja Express', a luxury tourist train which stands out as a synonym of the Royal Indian. The Mahaparinirvan Express (Buddhist Circuit Special Train) was awarded National Tourism Award of Excellence by the Ministry of Tourism in 2009. IRCTC offers charter services on a number of scenic mountain railway routes including Darjeeling Himalayan Railway.

There are different types of marketing tools for promoting and selling rail tour packages. For marketing tours packages, IRCTC integrates many mediums to advertise events, including social networking websites, internet banners, commercials, and the travel section of print media. The prominent marketing initiatives of IRCTC include E-Mailers (IRCTC is having three sites which are www.irctc.com, www.irctc.co.in & www. railtourismindia.com). Irctc.co.in is the biggest e-commerce site in the whole of Asia.

IRCTC participates in travel marts and exhibitions. It is to the credit of IRCTC that they successfully manage exclusive and inimitable products such as Bharat Darshan, and Fairy Queen Express.

Rail tourism is a novel concept and needs robust marketing strategies. The marketing dynamics of tourism can be used by IRCTC to have good leverage for its operations.

Questions

1. What are the strengths of IRCTC?

2. Critically evaluate the gap between services offered by IRCTC and the passengers / tourists expectations.

3. Discuss how IRCTC can enhance its services marketing functions.

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UNIT – IV

Unit Structure

Lesson 4.1 **-** Tourism as a Major Component of the Service Sector

Lesson 4.2 **-** Service Design and Development

Lesson 4.3 **-** Technology as an enabler of service

Lesson 4.1 - Tourism as a Major Component of the Service Sector

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Learning Objectives

The objectives of this lesson are:

- ➢ To understand the development of tourism
- ➢ To know the nature, characteristics and components of tourism
- ➢ To study the impacts of tourism
- ➢ To learn about the types of tourism
- ➢ To outline the major motivations and deterrents in tourism
- ➢ To know the emerging trends in tourism
- ➢ To examine 'why' and 'how' tourism has become a major component of the service sector.

Introduction

"Tourism is the selling of dreams and dreams can be fulfilled through heartening services."

Tourism today has become a multifaceted and fast changing industrial activity of global importance. Tourism essentially is a practice of travelling for some definite purpose which includes pleasure, leisure, recreation, and relaxation. Considering the significance of tourism in the modern world, it is necessary to define it systematically. Tourism has become a very effective instrument for generating employment, earning foreign exchange,

improving infrastructure, helping regional development and thereby facilitating the overall growth of an economy.

The United Nations World Tourism organization (UNWTO) plays a central and decisive role in promoting the development of responsible, sustainable and universally, accessible tourism, with an aim to contribute to the economic development, international understanding, peace, prosperity, and universal respect for as well as observance of human rights and fundamental freedom.

Tourism is one of the prominent driving forces of the 21st century and the people working in the industry have to be creative, innovative, and enterprising. The human assets of tourism industry must be prepared to adapt to the changes posed by stiff competition. Tourism configures diverse operations ranging from tour operations, travel agencies, hotels, destinations management, developmental and promotional organizations, airlines, car rental services, rail, road, and water transportation, entertainment, cuisine, adventure, cultural extravaganza, and so on.

Tourism is recognized as a vibrant service industry profoundly characterized by the human touch. Now the numbers of tourism services are on the rise and on the other hand the tourist has become more cautious of the quality of service for the money he spends. This means that for the service providers, constant improvement in the quality of service, maintaining absolute standards, and greater emphasis on customer care is of core concern. Besides, they also have to take care of building an environment where the aspirations and sensitivities of the host population are taken care of.

Responsible tourism is the order of the day and in order to develop and promote responsible tourism, the providers of service have to do away with or minimize the negative impacts of tourism particularly on the natural resources, customs, culture, and traditions of the host population. It requires a professional approach to manage the various operations of tourism as a service industry.

Tourism is universally recognized as a basic and desirable human activity deserving the praise and encouragement of all peoples and governments. The Manila Declaration on Tourism supported the view that "Tourism is an activity essential to the life of nations because of its direct effects on social, cultural, educational, and economic sectors of the societies. It stated its conviction that world tourism can contribute to the establishment of a new international economic order that will help to bridge the widening economic gap between developed and developing countries and ensure the steady acceleration of economic and social development and progress, in particular of the developing countries.

The tourism industry is a vast and dynamic industry made up of businesses and organizations that provide goods, services and experiences to meet the distinctive needs of tourists. These businesses and organizations encompass virtually all areas of the economy making tourism a large and diverse industry. Thus, tourism industry is a highly fragmented industry made up of many industries.

Tourism possesses a multi disciplinary character and is closely associated with disciplines such as geography, history, sociology, psychology, anthropology, agriculture, law, marketing, architecture, economics, education, business management, aviation and cargo management, fashion design, engineering, health care, ecology and environmental science. Thus, tourism can be viewed and studied from the perspective of any of these disciplines. Tourism as a field of study is branched out extensively and requires an interdisciplinary approach for an all round understanding.

The UNWTO has forecasted that global tourism will continue to grow at an average annual rate of 4.3 percent a year until 2020, while receipts from international tourism will increase by 6.7 percent a year. The 21st century is bound to experience rapid growth in the tourism industry with one billion international arrivals by 2012 and 1.75 billion international arrivals by 2020.

The UNWTO Tourism Vision 2020 estimates that by 2020, one out of every three trips will be a long haul journey and long haul travel which was 24 percent of all world tourism in 1995 will increase to 32 percent by 2020. France topped the chart in terms of tourist arrivals receiving about 80 million tourists in2011. Europe has been forecasted to stay in the lead, followed by the East Asia Pacific region.

Tourism being a service industry, tourists expects services which give them unique experiences along with comfort and value–for-money. The hospitality establishments are re-defining their concepts and are going full throttle to pamper their customers with special and memorable services. Services get out dated very fast and tourism is one industry which has to subscribe to the latest and best concepts and practices to be successful.

Globally, the tourism scenario is changing at a swift pace with incredible number of people taking to vacations or travelling for business, leisure, or educational purposes. With ample options available before tourists in the present times, there is also stiff competition among the principal service providers. Creativity and innovation have become the hallmarks of tourism. The emerging types of tourism such as wellness tourism, golf tourism, literary tourism, and cruise tourism are gaining immense coinage. Trends indicate that the future holds bright prospects for travel and tourism.

Definitions of Tourism

The most commonly accepted definition of tourism is the one given by the Swiss professors Hunziker and Krapf in the year 1942 which is: "Tourism is the totality of the relationship and phenomena arising from the travel and stay of strangers, provided the stay does not imply the establishment of a permanent residence and is not connected with a remunerated activity."

One of the earliest definitions of tourism is given by Hermann V. Schullard an economist from Austria in the year 1910. According to him tourism is: "The sum total of the operations mainly of an economic nature, which directly relates to the entry, stay, and movement of foreigners inside and outside a certain country, city, or region."

The Tourism Society of Britain in 1976 proposed to clarify the concept of tourism by stating that "Tourism is the temporary short – term movement of people to destinations outside the places where they normally live and work and the activities during their stay at these destinations, including day visits and excursions."

The League of Nations in 1937 recommended that tourism covers the social activity of those who travel for a period of 24 hours or more in a country other than the one a person usually lives in. This definition is widely criticized as it emphasized only international tourism and excluded domestic tourism.

The UNWTO definition of tourism is as follows: "Tourism comprises the activities of person travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business, and other purposes."

According to Charles Goeldner and Brent Ritchie: "Tourism may be defined as the processes, activities, and outcomes arising from the relationships and the interactions among tourists, tourism suppliers, host governments, host communities and surrounding environments that are involved in the attracting and hosting of visitors."

A.K. Bhatia's definition of tourism is: "The practice of touring or travelling for pleasure or recreation, and the guidance or management of tourists as a business".

In short, tourism may be defined as "Commercial organization and operation of holidays to places of interest".

Who is a Tourist?

The commonly accepted definition of a tourist is: "A temporary visitor staying at least twenty four hours in the destination visited and the purpose of whose journey can be classified under leisure, recreation, health, holiday, study, religion, sports, business, family, missions, meetings, etc."

Domestic Tourism and International Tourism

A clear cut distinction is drawn between domestic or national and foreign or international tourism. When the travel is within the country, i.e. trips taken by a tourist is within his / her own country or when the origin and destination are in the same country, it is called domestic tourism.

When tourists crosses the international borders of the country of their origin to visit destinations located in other countries it is called international tourism.

Visitor

The United Nations Conference on International Travel and Tourism held in Rome in 1963 defined the term 'visitor' as "Any person visiting a country other than that in which he has his usual place of residence, for any reason other than following an occupation remunerated within the country visited."

Inbound Tourists and Outbound Tourists

Inbound tourists are those tourists entering a particular country which is not their country of origin. Outbound tourists are those tourists leaving their country of origin for another country.

Excursionists

Excursionists are temporary visitors staying less than twenty four hours in the country visited.

Tourism Destination

This refers to a place with specific high dependence on national and manmade tourist attractions. A destination can be a site, location or an event where all are attractions.

Nature of Tourism

Tourism is a composite and complex phenomenon which deals with strangers, their culture, attitudes tastes, fashions, likings, and preferences. It is basically the interaction between the guest and the host. Tourism thrives on natural values. But the number of such natural values is found to be fixed and immobile

Importance of Tourism

Tourism is an activity generating a number of social and economic benefits. It promotes national integration and international understanding, creates employment opportunities and augments foreign exchange earnings. It also enriches the culture, art forms, handicrafts, etc. Expenditure by tourists has multiplier effect. Tourism is considered to be one of world's largest export industries by UNWTO.

Tourism is also highly instrumental in bridging the gap between estranged nations. Tourism is an excellent vehicle for implementing track two diplomacy and can be used as a diplomatic barometer of closeness and affinity.

Through tourism friendship is reinforced and exchange of cultures and ideas takes place. Tourism has an educational significance where travel helps in gaining new experiences and knowledge.

We shall consider tourism by adopting the model suggested by Leiper. There are three basic elements in Leiper's Model.

Tourist

Every aspect in the tourism system depends on the dynamics of tourists.

The Geographical Elements

The geographical elements are grouped into three which are:

Traveller generating region - The traveller generating region represents the tourist generating market which motivates or constitutes the 'push factor' in creating tourists. Tourists look out for information, tend to make the bookings and depart for new and pleasure filled experiences from the generating region.

Tourist Destination Region

The tourist destination region represents the 'culminating point' of the journey. A tourist destination may be an event, site or attraction. Tourism planning is undertaken at the destination and strategies for development are implemented. Tourism destinations possess the 'pull power' to draw tourists and create demand for travel.

The transit route represents the period and nature of travel from the generating region to the destination region. It also covers the intermediate points which may be visited enroute.

Tourism Industry

This is the third element of Leiper's model constituted by a range of businesses and projects involved in delivering the tourism product. Leiper has proposed a supply side definition. "The tourism industry consists of those firms, organizations, and facilities which are intended to serve the specific needs and wants of tourists.

Departing Travellers

Traveller Generating Region

Tourism Destination Region

Transit Route Region

Returning Travellers

The Tourism System
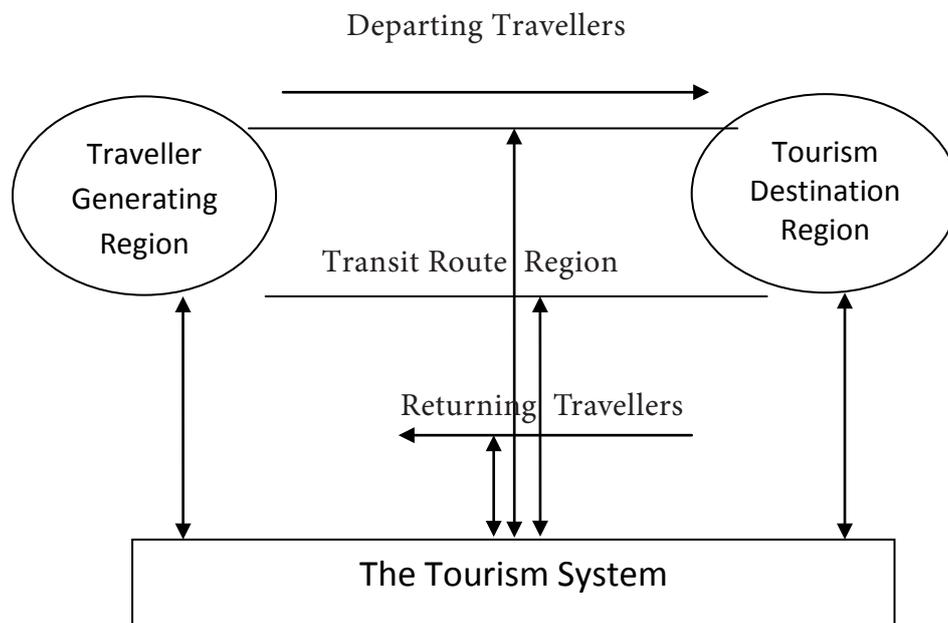
The Nature of Tourism

Characteristics of Tourism

The important characteristic features of tourism are:

1. The tourism phenomena arise from the movement of people to and their stay in various destinations

2. Tourism does not exist in isolation. It is an amalgamation of phenomena and relationships rather than a single activity.

3. There are two elements in tourism phenomenon-the journey to the destination and the stay.

4. The journey and stay takes place outside the normal place of residence and work.

5. The movement of tourist is of a temporary character.

6. The visits to the destinations are not to establish permanent residence or for pursuing a remunerative activity.

7. Tourism is a multidimensional activity. The successful operation of tourism needs the support and co-ordination between different components.

8. Tourism offers services and not goods.

9. The elements of seasonality are high in tourism.

10. Tourism is subjected to changes every now and then with the changing trends, fashions, ideas, and attitudes.

Components of Tourism

Tourism is a multifaceted phenomenon. It is an amalgamation of phenomena and relationship rather than a single activity. Tourism is constituted of three basic components which are considered to be essential for the successful operation of tourism business. These three components of tourism are Transportation, Accommodation, and Locale.

Transportation

Tourism involves the movement of people. Therefore transportation plays a very important role in the tourism phenomenon. For the tourists to travel to the destination of their preference, they need some mode of transport. The four major modes of tourist transports are automobile, rail, ship, and aircraft. The tourists' choice of the mode of transport is determined by factors like distance, time, status, comfort, safety, utility, price, geographical location, and services offered. A destination with an extensive transportation network is sure to become popular as tourists' prefer accessible destinations.

Accommodation

Accommodation constitutes the most important and the most visible segment of the infrastructure facilities for tourists in a country. Thus, provision of proper accommodation

of acceptable standards would largely determine the pace and level of growth of tourist traffic to a destination. Different forms of accommodation like holiday accommodation and alternative accommodation facilities are available to the modern tourists.

Locale

Locale or locality is the most important of the three components of tourism. A locale can be termed as an economic region with specific high dependence on natural and manmade tourist attractions and amenities. Tourists are attracted towards a particular destination only if the region possesses the desired qualities, scenic attractions and basic amenities. The tourists can make their choice of destination from the wide range of attractions all over the world.

The Elements of Tourism

The elements of tourism which can also be termed as the fundamental attractions of tourism are:

1. Pleasing weather
2. Scenic attractions
3. Historic and cultural factors
4. Accessibility
5. Amenities
6. Accommodation

1. **Pleasing Weather**

Weather or climatic conditions play a very important role in the tourist's choice of destination. Fine weather or friendly climatic conditions is one of the major factors which motivate people to travel. Tourists from countries which are characterised by extreme climatic conditions, flock to destinations with moderate and pleasant climate in large numbers. The change in atmosphere would provide the tourists with mental and physical rejuvenation. Destinations with pleasant weather have itself become popular destinations.

Natural coastlines which are characterized by cool breeze, sun, surf, sand, and sea have become popular beach resorts. Hilly areas with cool, chilled and icy atmosphere have become famous as hill stations or summer resorts which attract tourists from far and wide.

2. Scenic Attractions

"A thing of beauty is a joy forever". Nature and its gifts are always the objects of man's enjoyment and enthusiasm. Natural environment or scenic attraction is one of the most important factors in tourism. People find happiness and solace in nature. Almost all the products of nature are scenic attractions which can be termed as tourism products. The beautiful beaches, enthralling waterfalls, exhilarating lake and rivers, isolated islands, majestic mountains, awe inspiring deserts, enchanting forests with its flora and fauna are all attracting great number of tourists towards it.

3. Historical and Cultural Factors

Historical and cultural interests exercise a profound influence on the tourists' selection of destinations. The remnants of history and elements of culture are drawing large number of tourists, towards it from far and wide The glorious imprints of the past like majestic palaces, mighty monuments, gigantic forts, magnificent gateways, life size statues, chiseled stone works, relics, mausoleums, caves and museums which are the treasure houses of the past are all centers of tourist attraction. Tourists are also attracted by different forms of culture like customs, life – styles, festivals costumes, cuisine, art forms, music, painting, etc. Many tourists travel with the aim of exchanging diverse cultures. People also show a special interest in the destinations which has a cultural affinity with their native countries. Some tourists are travelling in search of their roots, to find their ancestry and to visit their friends and relatives. The Black Americans visiting Africa and the French visiting Puducherry are typical examples in this regard.

4. Accessibility

Accessibility is one of the most important elements of tourism. The availability of different modes of transport and the distance to the destination are important factors behind the success of any destination. A destination which lacks an efficient transportation network will definitely fall into oblivion. The tourists show little interests in the destination which are located in remote areas which are found to be inaccessible. It may cost much in the way of expenses and is also found to be time consuming.

5. Amenities

A tourism destination can provide complete satisfaction to the visitors only if it possesses the necessary facilities. Every destination should be provided with the basic amenities which are required for the well-being of tourists visiting the area. The basic

amenities required at the destinations are pure drinking water, comfort stations, police stations, information offices, clinics, pharmacies, shopping centres, banks, communication facilities, guide services, etc.

The destinations are different in character and each destination should be provided with the amenities which add colour to the entertainment, fun, frolic and enjoyment.

6. **Accommodation**

Accommodation constitutes the most important and the most visible segment of the infrastructure facilities for tourists in a country. Thus, provision of proper accommodation of acceptable standards would largely determine the pace and level of growth of tourist traffic to a destination. The type of accommodation has changed considerably since the last 50 years. Conventional and new types of accommodation facilities are available. Several accommodation establishments itself have become tourist attractions.

In this context, the significant role played by supplementary accommodation establishments, for instance, Time Share vacations, Service Apartments, Tourist Bungalows, Motels, Youth Hostels, Beach and Hill Resorts, Tree Houses, Paying Guest Accommodation etc., in the development and promotion of tourism by providing affordable rooms and dormitories to tourists, is to be mentioned.

Types of Tourism

Tourism is classified into different categories on the basis of purposes, regions and number of tourists.

On the Basis of Purpose

The types of tourism which belongs to this category are recreation / culture / adventure / sports /health / incentive/convention.

Recreational Tourism

In recreational tourism tourists utilize the time to escape from day to day boredom and to enjoy the entertainment facilities. The stress and strain of modern life is draining the vital energy of people. To escape from the hustle and bustle of city life, tourists prefer secluded areas where they can refresh themselves in the company of nature.

Cultural Tourism

Cultural tourism involves visits to places of cultural interests like ancient monuments, places of historic and religious importance, etc. which satisfy the cultural curiosity of the travelers. It paves the way for protecting cultural heritage and developing pilgrimages.

Adventure / Sports Tourism

This involves travel to adventure sports; sports based places, etc. for pursuing the activities of tourists' interest. Visiting the places of horse races, golf, hiking, mountaineering, rock climbing, aerosports, water sports, etc. are examples.

Health Tourism

Health tourism involves rejuvenation of the mind and body and includes places of medical treatment like ayurveda, yoga, naturopathy, hot spring spas, meditation centres etc.

Incentive Tourism

In this type of tourism, holiday trips are offered as incentives to employees, dealers, and sales executives of major organizations.

Convention Tourism

Conference or convention Tourism is meant for organizing conference and conventions related to political, cultural, academic and professional activities.

Domestic Tourism

When tourists travel within the boundaries of their own, it is called domestic or internal tourism. For this no travel documents are required.

International Tourism

International tourism or world tourism is travelling to a destination located in another country. It requires documents and formalities to cross the boundary.

Inbound Tourism

When tourists enter a particular country other than their country of origin it is termed inbound tourism.

Outbound Tourism

This refers to tourists leaving their country of origin for another country.

On The Basis of Numbers there are Individual Tourism and Group Tourism

Individual Tourism

In individual tourism, travelers move individually according to the individual programmes, means, and requirements.

Group Tourism

In Group tourism people move in groups to tourist destinations under a common programme.

Group tourism or organized collective tourism (organised tourism) or inclusive tour is where the tourists buys a trip, for which he is unable to distinguish the prepaid cost of his fare from the cost of accommodation and other elements. It is also known as package tour. The tourist may move about as an individual or as a member of a group, according to the particular arrangements entered into.

Based on the arrangement tourism is divided into Independent and Inclusive

Independent Tourism

In independent tourism, tourists arrange transportation, accommodation etc. for themselves independently with the assistance of travel agents. Designing an FIT requires considerable research into client's needs.

Inclusive Tourism

Under inclusive tourism, the package tours are arranged and tourists purchase a trip. There are other types of tourism which do not fall in the above mentioned categories.

Social Tourism

Dr. Hunziker identified and defined 'Social Tourism' at the second congress of Social Tourism held at Vienna and Salzburg in Austria in May 1959.

He proposed the following definition for Social Tourism:"Social Tourism is a type of tourism practiced by low income groups and which is rendered possible and facilitated by entirely separate and therefore easily recognizable services".

According to M.Andre Polimount, "Social Tourism is the type of tourism practiced by those who would not be able to meet the cost without social interventions i.e. without the assistance of the association to which the individual belongs".

This tourism is meant for the low income groups and workers. Travel facilities are offered by granting subsidies by the state local bodies, trade unions, employees unions and other associations. It is more popular in East European countries.

When people of limited means participate in tourism or measures are taken to encourage them to participate or to make it possible, it is known as social tourism.

The concepts of social tourism are largely based on subsidies, special facilities, and other measures. These are provided on a co-operative basis or by the state or by any other third party.

Farm Tourism

Familiarization or Fam trips are aimed at acquainting, intimating, informing, and providing firsthand experience of the tourism products or services to the opinion makers and business providers.

Mass Tourism

In mass tourism a large number of people travel together or participate collectively in tourism activities.

Incoming Tourism

Incoming tourism means tourists received by a certain country from other countries.

Outgoing Tourism

Outgoing tourism involves those tourists normally residing in one country visiting another country.

Residential Tourism

This type of tourism involves tourists, with a holiday period of over one month, to spend it in a specific tourist place. These tourists prefer quiet and peaceful places with a mild climate. It usually takes place in the peak season.

Seasonal Tourism

Tourism with more than one month holiday period comes under seasonal tourism. They spend the time in a particular place. The difference between residential tourism and seasonal tourism is only in terms of the time factor.

Roving Tourism

In this type of tourism there are tourists who travel throughout their holiday period from place to place. They never spend more than five nights anywhere. They are continuously on the move. In most of the European countries, this form of tourism takes place from December to March every year.

Summer Tourism

Summer tourism takes place during the summer months, sunshine and sea bathing are the attractions of the season.

Winter Tourism

This type of tourism takes place in the months of December to March in most of the European countries. The main incentives for winter tourism are search for snow and search for sunshine.

Business Tourism

Business tourism involves the travelling of professionals, executives and industrialists for pursuing business activities, business meetings, attending trade fairs and exhibitions,

meeting new buyers and exploring new markets. These businessmen are included in the category of tourists as they spend their free time at the destinations near the business centres. They are considered to be high spending tourists and their contribution to the destinations is also high.

Cultural Tourism

Cultural tourism is a form of tourism in which the cultural features of the destination are highlighted as attractions. A great number of tourists travel to distant destinations to experience the culture of that place, to study the life style, to engage in their occupations, to follow the ritual, to take part in festival and celebrations, to learn their art forms, to taste the cuisine, to show special interest in their costumes and so one. Visiting the historical centres, monuments, museums, spiritual centres, institutions etc. are activities related to cultural tourism.

Monsoon Tourism

Tourism industry has become very competitive and some time back rainy periods were considered as off seasons. Now a days, industry has initiated Monsoon Tourism to fill the gap by presenting it as the right time for ayurvedic treatments when pores of the skin open up during rainy seasons and treatment will be effective.

Ethnic Tourism

This type of tourism is practiced by those tourists who travel in search of one's own roots / ancestry. It is similar to cultural tourism but more participative and indigenous with intimate contact.

E.g.:-Black Americans travelling to Africa, French travelling to Pondicherry.

Farm Tourism

Farm tourism involves the visits to farm houses or agricultural houses. The tourists stay in the farm houses and engage themselves in farming and other related activities.

Hydel Tourism

This refers to the tourism activities which develop around the Dams with Hydro Electric Projects. Caves and wildlife are important components of Hydel Tourism.

Rural Tourism

In rural tourism, destinations are the rural villages and the purpose is to experience the rural life and the tourists will be living with the people, virtually participating in their traditional activities.

Ecotourism

Eco Tourism can be conceptualized as follows:

"Any Tourism programme which is (a) nature based (b) ecologically sustainable (c) where education and interpretation are major components, and (d) where local people are benefitted, can be called Ecotourism. If it does not satisfy any one of these components then it cannot be called a real Ecotourism programme".

Ecotourism is a new concept in tourism. It is a purposeful travel to natural area to understand the cultural and natural history of environment, taking care not to alter the integrity of the ecosystem, while producing economic opportunities that make conservation of natural resources beneficial to local people. Within international tourism, it is a fast growing segment.

Ecotourism is also defined as a form of nature-based tourism that involves education and interpretation of natural environment and is managed to be ecologically sustainable.

Compared to conventional tourism, Ecotourism requires less tourism infrastructure facilities and services as ecotourists demand less accommodation and material comforts. Thus Ecotourism would entail a reduced impact on environment.

Golf Tourism

This form of tourism is mainly subscribed by the elite, up-market clientele. It blends both participatory and visual enjoyment. This is because of the idyllic location where golf courses are situated. Golf tourism is given ample thrust in the agenda of tourism planners. Many countries take the advantage of the abundance of signature golf courses. Golf is identified as a niche area and is becoming immensely popular in the corporate markets.

The potential of golf tourism is exploited significantly by developed countries of Europe. Golf courses have also become an important component of urban tourism projects. In countries like Spain and Greece, many golf courses are linked to timeshare properties.

Investors across the world have started taking keen interest in Golf Tourism, keeping in view the long term prospects.

Helicopter Tourism

The promotion of Helicopter Tourism is focused on linking major tourism destinations in a region by way of initiating helicopter services. The Heli–tourism product enables tourists to travel from one destination to another in quick time while enjoying a bird's eye-view of the marvels of the destination. The major benefit of Heli-tourism is that the destinations which are inaccessible, but having tremendous potential will be made available for tourism purposes. The Kerala Tourism Development Corporation has signed a Memorandum of Understanding (MoU) with Deccan Aviation for connecting major tourism destinations in the state by helicopter and sea plane services. The package costs include helicopter charges, local transport, food and accommodation for five persons. Undoubtedly the helicopter service would be a boon to tourists, businessmen and IT professionals who wish to commute quickly from one destination to another.

Literary Tourism

Unlike certain forms of tourism, literary tourism boasts of an aesthetic tag attached to it. This type of travel is undertaken mostly by litterateurs, writers and journalists. Litterateurs are genuine tourists who are creatively inspired and travel extensively to meet and interact with likeminded personalities. Poets, short story writers, novelists, critics, etc. travel widely to understand the various problems and aspects of creativity. It is also important for them to keep track of new literary trends. Literary tourists are keen to travel and participate in seminars and conferences and share opinion on national and international issues of grave human concern. Literary tourism is at times state sponsored trips or conducted under the auspices of NGO's.

Literary Tourism is of immense social relevance because literary personalities can contribute a lot for social harmony, peace, communal amity and upliftment of the downtrodden population.

Travelogues and travel documentaries are vital components of tourism promotion. Freelance writers and journalists with profound interest in travel and flair for writing are engaged by media to cover the features of tourist destinations and products. Many eminent writers have authored popular works based on their travel. Contributions in the form of travel articles, feature stories and write ups have paved the way for enriching literary tourism.

It is a well known fact that certain destinations attract tourists only because of its literary connection. The Stratford-upon-Avon in England, the birth place of Shakespeare is a pilgrim spot for litterateurs from all over the world.

Motivations and Deterrents

Motivation can be defined as "a conscious or unconscious need, drive, etc. that incites a person to some action or behavior. People travel for one reason or other. Every traveler has a need to be fulfilled behind his travel. The need which persuades or incites one to travel can be termed as the "motivation to travel". Generally speaking, tourism is the outcome of a combination of motivations. Ever since the progress of mankind, the basic motives behind tourism and travel can be construed as curiosity, trade and commerce, education, health, sports, etc. Recreation and pleasure became the dominant motives since industrialization.

McIntosh grouped the travel motivators into four categories

1. Physical motivators: related to the individual's physical health and fitness (rest, relaxation, sports, treatments)

2. Cultural motivators – related to the individual's desire to travel to experience the culture of the people of other countries and their different forms of culture like art, literature, music, folklores, costumes, cuisine, lifestyle etc.

3. Interpersonal motivators- related to the individuals desire to escape family or neighbourhood and to meet new people and form friendship, to escape from the routine life, and also to visit friends and relatives.

4. Status and prestige motivators – related to the individual's self esteem and personal development.

The above mentioned four categories can be further grouped as

- ➢ Pleasure
- ➢ Rest, relaxation, and recreation
- ➢ Health
- ➢ Sports
- ➢ Curiosity and culture
- ➢ Ethnic

- ➢ Spiritual and religious
- ➢ Professional and business
- ➢ Visiting Friends and Relatives (VFR)

When people are induced to travel due to diverse motivations, there are certain factors which stand as obstacles in the path of travel for many.

They are:

- ➢ Lack of disposable income
- ➢ Non-availability of time
- ➢ Health problems
- ➢ Family problems
- ➢ Hostile climatic conditions
- ➢ Safety and security
- ➢ Rigid travel formalities
- ➢ Vacation blues syndrome

The Positive Impacts of Tourism

This, on the economy is in the form of economic benefits. Tourism is often welcomed as an industry bringing the desperately needed foreign exchange, employment, and modern prosperous way of life. It is seen as a means for counteracting the economic difficulties.

Economic Benefits of Tourism

Major economic benefits of tourism include foreign exchange earnings, employment generation, contribution to the government revenue, regional development, redistribution of national income, development of infrastructure and the stimulation of economy.

1. **Foreign Exchange Earnings in Tourism is by way of receipts of non-domestic currency by selling goods and services to the foreign tourists.**

   International trade consists of export and import of goods and services by nations. Almost all the countries have to import certain goods and services for their developmental activities, at times for their mere survival especially by the developing nations which are characterized by low level of development in all spheres. Payments for these imports have to be made in hard currencies, which have to be earned by exporting goods and services.

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Hard currencies are currencies like US dollar. Sterling Pound, Deusche Mark, Dinar, Euro, etc. which have higher value in international exchanges and more accepted all over the world.

Export of goods is called visible exports and export of services is called invisible exports. Tourism comes under invisible exports. Tourism is a service industry. As far as India is concerned tourism is the second highest foreign exchange earner. The expenditure incurred by the Indian tourism industry is very low compared to other major exports industries. India's share in world tourism is a meager 0.64%. The amount spent aboard or sent out of the economy for imports by an export industry is called leakage. Leakage is anything that causes the profits from tourism to drain away from the place where tourism occurs.The earnings by way of foreign exchange have a positive impact on the "Balance of Payments" situation. Balance of payments refers to the record of a country's economic transactions during a period of time. These transactions consists of exports (credit) and imports (debit). Almost all the developing nations and some of the developed nations have deficit in their balance of payment. In such a situation they approach international monetary agencies for loans.

Tourism makes a great contribution to the export earnings of the country and improves the Balance of payment (BoP) situation. It can reduce or eradicate the deficit. Foreign exchange is very important for the development of a nation. This is especially relevant in the case of the developing countries which have to import lot of capital goods for their developmental activities or for mere survival. Developing nations are characterized by low pace of development, unemployment, illiteracy, poor infrastructure, and poor standard of living.

Tourism earns foreign exchange without any serious drainage of national resources, without, really exporting any materials goods. There are no expensive freight duties and the buyer comes right to the doorstep

2. **International Economic Impacts**

It is estimated that two trillion dollars are spent on tourism every year. This accounts for 12% of the global Gross National Product. It is more than the entire world's military budget. It accounts for 7% of the capital investments throughout the world and is growing faster than most of the national economies.

Travel and tourism is the largest employer in the world meeting an annual payroll of $515 billion and accounting for one in every 12 jobs. At present tourism is rated as the first

largest industry in the world. Now, world spending on tourism exceeds global spending on armaments. It is expected to be the most popular industry in the world by the middle of the 21st century because of the anticipated growth in discretionary spending, leisure time, and educational expansion.

International Trade Effect

Tourism provides or stimulates trade opportunities at international level and generates exports. Travelling itself causes trade effects. While travelling by air, the tourists use aircrafts manufactured in other countries, stay in hotels run by non-residents or international chains and will be consuming food and drinks not supplied domestically. (E.g. Indian tourists fly to Sri Lanka in Boeing aircrafts, stay in Taj Samudra, drink Scotch whisky and French wine and eat Australian beef.)

Redistribution Effect

Most of the international tourists come from high income developed countries and spend a part of their discretionary income in low income countries by purchasing holidays. So, some of the surplus spending power of developed nations is redistributed to the other low income countries through tourism. About 80% of international tourists are sent out by the 12 richest countries in the world. Countries like Japan and Germany are encouraging residents to travel abroad.

Contribution to Government Revenue

Tourism generates revenue to the government from within the country. This revenue is mainly in the form of taxes. Tourism contributes a great deal to the direct and indirect taxes. Direct taxes are by levying taxes on the income generated by tourism employment and business. Indirect taxes are by taxes and duties levied on goods and services supplied to primary tourism industries (groceries, furniture industry, medical shops, bakers, textiles etc.).

In developing countries employment is mainly found in agricultural sector, which means income from employment taxes is very low. As such, the governments depend upon indirect taxes as the main source of revenue. As tourism is a major generator of employment outside agriculture sector, it widens the government's tax generating base. As tourism develops in a country, business of tourism establishments also increase, which again increase the government's tax revenue by way of corporate tax, luxury tax, expenditure tax etc.

Another source of revenue is the important taxes. Tourism necessitates the import of goods and services. Taxes on imports again add to the government's revenue. Thus governments provide certain services to the tourists. They are communication, health, and transportation. Then there are government run handicrafts emporiums, duty free shops, hotels, coach services etc. These services also bring in revenue to the government. There are few taxes which can be called tourism taxes. They are hotel bed tax, airport tax, visa fee etc.

Possible sources of revenue from tourism include:

- Room tax
- Tax on meals
- License fees for tourism facilities
- Entrance fees (to Monuments, wildlife sanctuaries, national parks etc.)
- Excise tax
- Import tax
- Sales tax
- Property tax on visitor property
- Profit tax
- Income tax on tourism industry employment
- Corporation tax on tourism industry companies
- Airport use fees.
- Cruise ship /boat fee

The list is not exhaustive, but it does demonstrate the wide scope for taxation. It is not always possible to delineate taxes arising directly from tourism, e.g. Airport Departure Tax, and those indirectly derived e.g. General sales Tax

Employment Generation

Tourism is a service industry and so it is labour intensive. It has the capacity to create employment for large number of people having different levels of skills and abilities, from unskilled to managerial levels. It being a service industry, tourism depends largely on the people working in it rather on the machineries like in other manufacturing industries. Many of the jobs created by tourism may not require extensive or highly specialized training or skills. This aspect is more relevant to the developing countries which normally have an army of unskilled an unemployed people.

It is cheaper to create jobs compared to other industries in tourism. Cost effectiveness is more in creating employment in tourism sector. Per unit of capital invested in tourism creates more jobs than a similar unit of capital invested in another sector, especially in the manufacturing sector.

Employment generated by tourism is categorized into three divisions: direct, indirect, and induced.

Direct employment results from visitor expenditure in tourism plants such as hotels. These are the jobs created specifically by the need to serve the tourists.

Indirect employment is found in the tourism supply sector, but does not result directly from the tourists' expenditure. The primary industries will need goods and services from other sectors. Tourism development creates jobs indirectly in sectors which do not directly serve the tourists. E.g. hotel furniture, poultry, agriculture, dairy, textiles, crockery etc.

Induced employment is the additional employment resulting from the effects of the tourism multiplier as local residents respond the additional income which they have earned from tourism. This would necessitate expansion of activities in other sectors to cater to the needs of the newly employed or the new income group.

There is also a backward linkage in employment generation in tourism. Even before the tourists start coming to the destination, employment opportunities are created. E.g. tourism requires large inputs from the construction sector. Construction works are done much before the destination or the facilities are offered to the tourists.

Employment generation in tourism has a multiplier effect. Tourism development creates employment opportunities in many sectors of the society.

Redistribution of National Income

Tourists spend the money earned in their place or residence, at the place they visit. This results in an effective redistribution of national income. Normally the major economic activities take place in the cities.

And it is often the affluent people or those having disposable income that travel for tourism purposes. Most tourism destinations may just be having these attractions alone and not much of other economic activities.

Regional Development

An important domestic effect of tourism is the regional development. The under developed regions of the country may be marginal areas, which are relatively isolated and having problems of unemployment and poverty or the land may not be very fertile. At the same time these areas may be having rich attractions for tourists such as high scenic beauty or cultural attractions or monuments. These tourism potentials of the area will result in the economic and social development of that region. Tourism can bring prosperity to the local people. Above all, tourism can help in redressing regional imbalances in employment and income. E.g. Khajuraho, Thekkady and Jaisalmer. The development would not confine itself to the main destination alone. The surrounding areas also prosper as a result.

Development of Infrastructure

One of the characteristics of underdevelopment is deficiencies in infrastructure. Tourism development in any area necessitates development of infrastructure. A particular destination has to be promoted extensively to receive tourists. The benefits from infrastructure development made for tourism are shared by other sections of the societies also. Moreover, with the development of tourism the existing infrastructure will be improved. Local people benefit from the infrastructure as they are now provided with more amenities. These infrastructure developments may also lead to new economic activities in the particular area. New small industries may come to the area, precipitating economic prosperity.

Multiplier Effect of Tourism

It means that the flow of money generated by tourists' spending multiply as it passes through various sectors of the economy. From an initial impulse such as expenditure or investment, there will be one or more primary effects such as income and savings. These primary effects in turn produce secondary effects of the same type as the first one. This process is repeated several times in a given period of time

The money spent by tourists may be used several times spreading into various sectors of the economy stimulating them all. This stimulation of total economy takes place as a result of tourism.

Expenditure of tourism in a destination creates new incomes and output in the region which in turn produce further expenditure and incomes. The re-spending of incomes, which create additional incomes, is known as the multiplier effect.

The tourist multiplier can be defined as the number by which initial tourist expenditure must be multiplied in order to obtain the total cumulative income effect for a specified period.

Social Impact of Tourism

Social impacts refer to the changes in the quality of life of the residents of a tourism destination / host population.

Tourist and host encounters play a major role in determining the social impacts of tourism. It is these encounters that lead to the non-material impacts of tourism.

There are three types of encounters:-

1. When tourists purchase goods and services from the host

2. When tourists and the hosts share the same tourism product

3. Deliberate contact between tourists and hosts with the aim of exchanging information and ideas.

The encounters result in direct social and cultural contact between the guests and hosts. These direct social and cultural contacts lead to tourists experiencing a small measure of indigenous life.

Social Benefits of Tourism

National Integration

This is a fall out of domestic tourism. This aspect is very relevant in the case of countries like India. To quote the National Committee on Tourism, "The recent rise of fissiparous tendencies threatens to weaken the unity of the country. Tourism can serve as an effective instrument for national integration. No other activity has the potential for breaking barriers of caste and creed, motivating linguistic groups to communicate with one another and promote inter regional understanding. It is through well planned tourist visits that citizens can see for themselves the different streams of civilization intermingle with one another and appreciate the diversity of the country".

Domestic tourism is growing as a result of the growth of middle class which augurs well for the tourism's potential as a catalyst for national integration.

International Understanding and World Peace

Through tourism people can achieve better understanding and appreciate the culture, history, geography, social, educational, political, and economic systems of other countries. This realization will lead to greater understanding between and among people of various countries.

Tourism provides an opportunity for citizens from different countries to see for themselves the efforts the host country makes to preserve what is best in its heritage and to build a modern economy and a free and fair society. The cumulative impact of their personal observations may be expected to gain good will for the host country, develop interest in its products and strengthen their support for its development programs. To have visitors is a special honour and to treat a visitor well and hospitably is an act of good manners. A visitor arrives in New Zealand stays for a while and leaves praising the country is a good ambassador and he is the ambassador who costs nothing.

Tourism and Track – Two Diplomacy

There are two tracks of diplomacy:

Track one: This is the official channel of government relations.

This track tends to and requires making most case assumptions about an adversary's intentions in order to defend their nation's interests leading to confrontation, distrust and antipathy. Consensus building makes official negotiations difficult because statesmen cannot compromise and compromise destroys what is perceived to be a national interest. Government leaders cannot risk the chance that adversaries will misperceive reasonableness as a sign of weakness and thus be tempted to be even more aggressive.

And the mutual image of the enemy is always similar no matter who the enemies are, and they mirror each other. Each site attributes the same virtues to itself and the same vices to the enemy. 'We are trustworthy, peace loving, honourable, and humanitarian. They are treacherous, war liking, and cruel.

When relationships are strained, it is difficult for either side to take initiative to approach the other (may be construed as weakness or they make some totally unacceptable proposals for political reasons). For the track one diplomacy (official) to succeed, discussions in an unofficial environment are necessary. Track two diplomacy helps to create this environment.

Track two: It is the unofficial people to people relations. The underlying assumption of track two diplomacy in creating an alternative of relationships is that, conflict can be resolved or eased by appealing to common human capabilities by responding to good will and reasonableness.

Tourism is an excellent vehicle for implementing track two diplomacy and this approach is likely to have higher probability of success than track one.

Tourism can be used as a diplomatic barometer of closeness and affinity. The flow of tourism between two nations can be used as a sign of the level of good relations between two nations and their people.

Increased personal interaction break down barriers, reduce suspicion, and facilitate mutual respect and friendship. Tourism has been identified as a means of building political bridge among nations.

A key to improved China-US relationship was the opening of China to tourists in 1978 and the encouragement of exchange of groups. Tourism can be used to reduce to the level of tension, replacing it with mutual understanding and trust.

Development and Preservation of Local Culture

The major elements of culture that attract tourist to particular destinations are:

- ➢ Handicrafts
- ➢ Language
- ➢ Traditions
- ➢ Gastronomy
- ➢ Art and Music including concerts, paintings and sculpture
- ➢ The history of the region including its visual reminders
- ➢ The types of work engaged in by residents and the technology which is used.
- ➢ Architecture giving the area a distinctive appearance.
- ➢ Religion, including its visual manifestations
- ➢ Educational systems
- ➢ Costumes
- ➢ Leisure activities

These can be classified into three categories:

1. Inanimate forms of culture
2. Forms of culture reflected in the normal daily life of the destination.
3. Specially animated forms of culture.

Negative Impacts of Tourism on Society and Culture

Tourism is criticized as one of the incurable diseases of the modern age. It is criticized as a cancer that damages not only the natural environment but also the indigenous way of life, culture and moral values. Herman Kahn, the noted futurologist has described the astonishingly growing tourism industry as next only to atomic power in its potential for environmental destruction.

Tourism is opposed by some stating that it damages the culture and peace of people of the host country. The argument is that without tourism, the rural environment would remain untouched and unspoilt by development and thus would be able to preserve its sustainability.

There is a positive correlation between tourism and crimes. There are several cases in which the destinations have degenerated into criminal centres. Crimes are generated from the constant friction between the tourists and the host population. Activities like narcotics, espionage, terrorism etc. are on the rise. Criminals move out freely on the disguise of tourists and the chances of detection are less.

Another social evil dominant in tourism destinations is prostitution. Sex tourism has become the main attraction of many destinations. Sex tourism is a significant part of tourism promotion in some of the Far East countries like Philippines and Thailand. In Bangkok, 50 percent of the prostitutes are children under the age of thirteen.

Sex is very dominant in the Beaches. Sex has become the fifth 'S' the others being sun, surf, sand and sea. Sex is now promoted as the selling point of many destinations.

Cultural pollution resulting from tourism is also found in other areas of the society. The youngsters in the locality are found to exhibit an imitation tendency to ape the foreigners and their style. Service providers in tourism show a very bad tendency to make alternations in the indigenous art forms, material art forms, treatment forms, music, costumes etc. for the convenience of the tourists.

Types of Environmental Impacts

Tourism can generate either positive and negative environmental impacts or no appreciable impacts, depending on how its development is planned and controlled. The most commonly accepted types of impacts are outlined.

Negative Impacts

The various types of negative or undesirable environmental impacts which can be generated by tourism development if it is not carefully planned, developed and controlled include those listed below.

Not all these impacts are likely to take place in one area because the types of impacts often depend on the kind of tourism development and the specific environmental characteristics of the tourism area. The scale of tourism development in relation to the carrying or absorbing capacity of the environment greatly influences the extent of environmental impact.

Water Pollution

If proper sewage disposal systems have not been installed for hotels, resorts or other tourist facilities, there may be pollution of ground water from the sewage; or if a sewage outfall has been constructed into a nearby river or coastal water area and the sewage has not been properly treated, the effluent will pollute that water area. This is not an uncommon situation in beach resort areas where the hotels has constructed outfalls into adjacent water area which may also be used by tourists for swimming.

Air Pollution

Tourism is generally considered a 'clean industry' but air pollution from tourism development can result from excessive use of internal combustion systems of vehicles such as cars and buses used by and for tourists in a particular area, especially at major tourist sites which are accessible only by road.

Often compounding this problem is improperly maintained exhaust system of the vehicles. Furthermore, pollution in the form of dust and dirt in the air may be emanated from open degenerated areas if the tourism development is not properly planned, developed and landscaped, or is in interim state of construction.

Noise Pollution

Noise generated by a concentration of tourists, tourist vehicles, aero planes and sometimes by certain types of tourist attractions such as amusement parks or car / motor cycle race tracks, may reach uncomfortable and irritating levels for nearby residents and other tourists. Very loud noise can result in ear damage and psychological stress.

Visual Pollution

Poorly designed hotels and other tourist facility buildings which are not compatible with the local architectural style or scale, use of unsuitable building materials on external surfaces, badly planned layout of tourist facilities, inadequate or inappropriate land scaping, use of large and ugly advertising signs, overhead utility lines (electric, telephonic etc), and poor maintenance of buildings and landscaping can result in an unattractive environment for both tourists and residents. Littering of the landscape also results in visual pollution.

Waste Disposal Problems

Littering of debris on the landscape is a common problem in tourism areas because of the large number of people visiting the area and the kind of activities they engage in. Improper disposal of solid waste from resorts and hotels can generate both litter and environmental health problems from vermin, disease, and pollution and also make it unattractive.

Ecological Disruption

Several types of ecological problems can result from uncontrolled tourism development and tourist use such as: over use of fragile natural environment by tourists leading to ecological damage, for example, killing or stunting the growth of vegetation in a park/ or conservation area by many tourists tramping through it and compacting the soil around the vegetation, excessive collection of lime sea shells, corals, turtle shells or such other items by tourists (or by local people for sale to tourists) which depletes certain species, breaking and killing of corals by boats and boat anchors and divers (corals require decades for regeneration); undue filling of mangrove swamps, which are important habitats for sea life and control circulation of water, building of groins, piers, and similar structures into the coastal waters which may change beach formation processes and lead to erosion; disruption of animal habits and activities by photographing and feeding them and encroachment into animals habitats; and other types of ecological problems through uncontrolled tourism development and tourist use.

Environmental Hazard

Poor siting and engineering design of tourist facilities as of any type of development can generate landslides, flooding, sedimentation of rivers and coastal areas resulting from removal of vegetation, disruption of natural drainage channels etc. Poor design may also result in tourist facilities themselves being damaged or destroyed such as by earthquakes, high winds, flooding, and land slippage.

Damage to Historic and Archaeological Sites

Over use or misuse of environmentally fragile archaeological and historic sites can lead to damage of these features through excessive wear, vibration, vandalism, graffiti writing etc. Some major archaeological sites, for example, Stonehenge in the UK and Parthenon in Greece, are closed to direct access of tourists because of concerns about damage by excessive visitor use.

Land use Problems

If not well developed according to good land use planning principles, tourism development may pre-empt land which is more valuable for other types of land uses such as agriculture, residential, park and recreation, or should remain under strict conservation control.

Overcrowding and Congestion

Overcrowding by tourists, especially at popular tourist attractions and vehicular congestion resulting from tourism generate several of the environmental problems indicated above as well as lead to resentment on the part of residents and create an unpleasant situation for the tourists.

There may be other or more specific types of negative environmental impacts depending on the particular type of tourism development and the characteristics of tourism areas.

Positive Impacts

Tourism, if well planned and controlled, can also help to maintain and improve the environment in various ways, such as indicated below:

Conservation of Important Natural Areas

Tourism can help justify and pay for the conservation of important natural areas and development of park and outdoor recreation facilities including establishment of national and regional parks, because they are attractions for tourists.

Without tourism, these natural areas might be developed for other uses or allowed to ecologically deteriorate. This can be an especially important benefit in countries which have limited resources for nature conservation.

Conservation of Archaeological and Historic Sites

Tourism provides the incentive and helps pay for the conservation of archaeological and historic sites (as attractions for tourists) which might otherwise be allowed to deteriorate or disappear.

This also can be an especially important benefit in countries which have limited resources for archaeological and historic preservation.

Improvement of Environmental Quality

Tourism can provide the incentive for "cleaning up" the overall environment through control of air, water and noise pollution, littering and other environmental problems, and for improving environmental aesthetics through landscaping programs, appropriate building design, sign controls and better building maintenance, etc.

Enhancement of the Environment

Although a more subjective benefit, development of well designed tourist facilities may enhance a natural or urban landscape which is otherwise dull and un interesting.

Improvement of Infrastructure

An economic as well as environmental benefit, local infrastructure such as airports, roads, water, sewage, and solid water disposal systems, telecommunications, etc. is often improved through development of tourism which uses and helps pay for these improvements. Water resource management may also be improved through development of tourism.

Increasing Environmental Awareness

In places where residents have limited interest in and concern about the natural environment and its conservation, observing tourists' interest in nature can encourage local awareness in this concepts.

Tourism as an Industry

Tourism is now a major item of international trade, perhaps the biggest international business activity. International tourism is the single largest item in world's foreign trade and for some countries; it is the most important earner of foreign exchange. The relevance of tourism now is that it brings the capital flows for major investments. In view of the economic advantages and commercial importance of tourism, it has been established as a major industrial activity worldwide.

The UN conference on International Travel and Tourism held in Rome in 1963 is considered to be one of the most important milestones in the history of international tourism development. The conference emphasized the profound importance of tourism as an economic leverage factor. The conference noted that "Tourism is important not only as a source of foreign exchange but also as a factor in the location of industry and in the development of areas poor in natural resources." The influence of tourism as a tertiary industry, creating prosperity through the development of communications, transportation, accommodation and other consumer services was also emphasized.

A.J. Burkaat's view of tourism industry is that it is comprised of a broad range of businesses and organizations that are related to virtually all areas of the economy.

The groups include all suppliers of coaches and services which the tourists require.

Neil Heiper advocated that the "Tourism industry comprises those organizations that are in the business providing goods and services to meet the distinctive needs of some identifiable collection of tourists, and co-operate with one another to some degree in doing so."

More and more countries are declaring tourism as an industry and are much ahead in adopting policies and formulating plans, framing regulations, and providing incentives. Developed countries might refer to tourism as a service rather than an industry as they have attained high levels of perfection in infrastructural development. On the contrary, developing countries have to concentrate on intensive development in order to pave the

way for a vibrant tourism industry. For such countries, tourism is undoubtedly an industry rather than being identified as a service or luxury.

Tourism Products

In tourism business, the tourist is the consumer and the product he purchases is the tour and the services provided – pre–purchase information search, facilitation, documentation, and booking, services en-route and services provided at the destination.

Tourism product can be defined as the sum total of a country's tourist attractions, transport, accommodation, and entertainment and recreation facilities which results in the satisfaction of tourists. It covers the complete experience from the time the tourist leaves his home to the time he returns. Further, it is a bundle of tangible and intangible experiences at the destination. Raw materials for the tourism products are mostly provided by nature. Specific components of tourism products are provided by industry agencies.

Characteristics of Tourism Products

The characteristic features of tourism products which makes it different from goods can be identified as:

- ➢ Intangibility
- ➢ Inseparability
- ➢ Heterogeneity
- ➢ Perishability
- ➢ Ownership

Intangibility

Tourism is an intangible non- material product. While goods are tangible in the sense that they have physical dimensions and attributes and can be seen, felt or tasted, services are intangibles. Tourism is purely service oriented and one cannot see, feel, smell, touch or measure a service performed. It can only be experienced from the effects produced.

Inseparability

Tourism products cannot be transported to the consumer. It is the consumer who comes to the product to experience it. Production can only take place or be completed

only if the customer is actually present. Hence the production and consumption cannot be separated. The product exists only when the consumption takes place.

Heterogeneity

The tourism product cannot be provided by a single enterprise. Each of its components needs a high degree of specialization and it together makes the final product. A tourism product encompasses the complete experience of tourists.

Perishability

Tourism product is a highly perishable product. The travel agent, tour operator or producer of the product cannot stock it or hold in abeyance. It will perish if not utilized when available. Supply of services cannot be stored. What is not sold cannot be carried forward as stocks to be sold at any other time. An airline seat or hotel room not used at a particular time is total loss. Stability is not possible for the producer of services because of the characteristics of perishability.

Ownership

Ownership of the tourism product is not transferable. Entitlement to the use of service facility as regards tourism product does not mean that ownership passes to the user. The buyer only acquires the right to certain benefits of what the seller offers. Seats in airlines, hotel rooms etc. are hired only for a specified period while the ownership remains with the proprietors.

Major Tourism Products

Tourism products are described in terms of attractions. The different types of tourism products are:

- Beaches
- Wildlife
- Adventure sports
- Monuments
- Waterfalls
- Deserts
- Lakes and rivers

- ➢ Monuments
- ➢ Theme Parks and Amusement parks
- ➢ Architecture
- ➢ Handicrafts
- ➢ Art forms
- ➢ Material Arts
- ➢ Fairs & festivals
- ➢ Culture
- ➢ Ethnicity
- ➢ Conference & conventions
- ➢ National parks
- ➢ Flora & Fauna
- ➢ Cuisine
- ➢ Textile
- ➢ Society
- ➢ History
- ➢ Pilgrimage
- ➢ Sports

Beach Tourism

Beach tourism is the most popular form of tourism in the world. Millions of tourists from across the world visit the famous beaches of immense repute. Beach tourists have led to the overall development of tourism in many parts of the world.

The different attractions of beach tourism are swimming, sun bathing, water sports etc. Beaches offer good weather, sunshine and cool breeze. The four S's in beach tourism – Sun, Surf, Sand and Sea are offered by an ideal beach resort. In beach tourism one can see that many activities are combined together. For e.g. water rides, swimming, surfing, sailing and other water sports activities, land resource usage – accommodation, recreational areas, park areas, shopping and commercial areas, access roads and transportation network.

Other activities include visits to tourist attractions in the vicinity of the beach. Beach tourism utilities the aesthetic and environmental values like beautiful natural scenery and water quality.

Beaches also played a historical role in tourism. There are large numbers of Spas in and around the Mediterranean Sea. The people who went to the Spas or mineral water springs believed it had medicinal values. The people who went to the Spas for health reasons started entertainment and recreational activities near the spas. Later, the major attraction changed to Spa entertainment. It paved the way for coastal tourism or beach tourism. Thus, beach tourism which had its origin in the Renaissance period is the most important form of tourism today.

The characteristics of a typical beach resort are the type of sand, shallowness, rocks, waves, unpolluted water and accessibility.

Island Tourism

Along with beach tourism island tourism has also carved out a niche of its own. Islands are termed as the gifts bestowed by the goddess of nature. They have become the favorite haunt of those who seek remoteness, seclusion or solace in a natural setting.

Islands have tremendous potentials to develop tourism. As the scope for major industrial activities are limited in islands, tourism offers great scope for the overall development of islands. But the development of island tourism has several constraints. An island resort does not have the ability to handle large number of tourists as it will put strain on the local capacity to absorb them.

Islands have fragile environment and therefore development has to be controlled and co-ordinated. Tourism has become the mainstay of many island countries. Mauritius, Seychelles, Maldives etc. are the best examples. In India, Andaman & Nicobar Islands and Lakshadweep islands are attracting large number of tourists towards it.

Most of the pre-requisites of a beach resort are applicable in developing islands resorts also. The factors to be taken care of while planning island tourism are:

➢ Geographical characteristics
➢ Historical, cultural, social and legal factors
➢ Environmental constraints and assessment of carrying capacity.
➢ Development of infrastructure, i.e. type of accommodation and food, mode of transportation within and between islands and sports and leisure facilities.
➢ Facilities for drinking water, power, communication etc.

Adventure Tourism

From time immemorial man in order to adjust himself to the adverse conditions of nature fought against the natural forces for his survival. The quest for survival and the spirit of adventure sports made him one of the most civilized living beings in the world. Adventure and sports have tremendous scope for promotion of tourism. The number of youngsters who are travelling for adventure is on the rise during the recent years. Many countries are trying their level best to provide maximum facilities for developing adventure tourism. The facilities required are not as much as the conventional type of tourism. This is one way to overcome the problems of seasonality. Adventure can be pursued during the off seasons also. An adventure tourist spends longer duration at a destination.

National Parks and Sanctuaries

There has been great regard and respect for both animal and forest life since ages. When man destroyed forests to grow food, animal life started to disappear. But this is being set right by initiating policies for preserving the ecology and with it to protect animal and bird life. National Parks and Sanctuaries have become much sought after tourist destinations.

The flora and fauna of India are of a tremendous variety considering that the land mass of India extends from about 8 degree North of the Equator through the tropics to temperate lands reaching to over 37^0 latitude. Forests ranging from equatorial rain forests to deciduous forests, thorny scrubs etc., decide the nature of wildlife found in each region. There are today about 81 National Parks and 450 sanctuaries. Project Tiger, the programme (tiger reserve) to preserve the feline species of wildlife has been set up in several of the National Parks and has already shown signs of success. The One Horned Rhino and the Indian wild Buffalo which were once becoming extinct are no longer in danger and are now protected species.

Wild animals can be viewed either from atop an elephant, from a jeep, from tree tops, huts or by cruising in boats. Viewing of birds is best on foot or from noiseless cycles.

Conference and Convention Tourism

Conference and convention tourism is one of the most important segments of world tourism. Every year, more than 33 million people travel for attending more than 33000 conference held in more than 18000 international or regional associations and organisations. Annual turnover is more than 104 billion US dollars. Eighty five percent of

these conferences are held in the West. Asia's share is 15 percent divided among sixteen countries and the turnover is one billion US dollars.

A major feature of congresses, conferences and conventions is that they bring together a large number of specialists in various fields and thereby offers assistance to specialists in that area. There will be change of technical knowledge and arrival and deliberations of new ideas. Since most of the participants represent the well to do and articulate sections of the society in their countries, they can help to promote the host countries and thus an international conference can help serve as an image booster for the host country.

A convention delegate is also valued for the fact that he spends three times as much as the average tourists. Conference delegates are the highest generators of foreign exchange for any country and are high yield source of airline revenue as majority of them travel in business class or first class as compared to tourists who travel on excursion fare or group discounted fares.

Tourist centers also benefit as a result of the pre-convention, mid-convention and post – convention tours undertaken by the delegates. Conferences and conventions bring large volume of people as the delegates will be coming with their entourage of assistants and also family members.

Consumers of Tourism Products

Consumers are an integral part of service provision in tourism. Although they are the recipients of service, consumers constitute an important component of the tourism product. Because of the inseparability of production and consumption, consumers can observe the service process, participate in it, and influence its outcome. The consumers' character, personality, motivations and overall behaviour determine the final outcome of the service provision and the level of satisfaction with service. Contrary to this, manufacturers of physical goods keep customers away from production for safety reasons.

Consumers are also a source of tourism product differentiation. Tourism services are customized and differentiated depending on the consumers' requirements. Service providers must adequately identify these needs and segment the total tourist market. Also, the customer's perceptions of the tourism service quality determine repeat visitation and customer retention.

Tourists as consumers are involved to a greater extend in the production of tourism services than of physical goods. The producers of tourism services have constant contact

with customers because tourists are present in the service production. Customers of tourism service are more responsible for their dissatisfaction with the tourism experience than with physical goods. Customers are required to communicate their needs adequately.

Customers of tourism products show greater brand loyalty to specific tourism products / services in order to achieve guaranteed satisfaction.

HRD Functions in Tourism

The core function of HR in tourism industry is to capitalize on the expertise of well educated and trained tourism professionals. Tourism is a highly competitive and fastly growing industry. It is an amalgamation of various players, which are in their own rights independent industries.

Management of this industry requires people with essential insights possessing diverse profile of this multifaceted phenomenon, i.e. tourism. HR efforts in tourism are directed towards making the professionals capable of discharging the vital responsibilities of managing and promoting tourism and hospitality industries.

Needs and Requirements

Human resource development unfortunately does not occupy a vital space in the tourism policy and hence the industry faces a setback in terms of defining the job profile, intake process, career opportunities, and advancement of qualified professionals. The outcome is poor man–power planning, career planning, inadequate training infrastructure, low pay packages etc.

Tourism being a concurrent subject in India, the central government and state government has an equal say in decision making and there is an underlining chaos in who is the authority responsible for development of tourism. The government should clearly define who is responsible for HRD in tourism sector.

The ideal mechanism will be a joint effort of the public and private sectors, tourism institutions and other parties. The dearth of quality professionals can be offset by the academicians, training organizations, and consultancies.

The public and private sector organisations needs to be aware of the emerging trends and evolving practices of tourism industry and so act accordingly in the personnel department.

In the service industry the twin aspect of professionalism and intellectual abilities are to be considered, especially in tourism departments and undertakings where promotion, planning, and marketing are key functional areas.

'Right people in Right positions' is the motto of effective HR in tourism business. The flair and aptitude of the candidates needs to be closely assessed in the process of recruitment and placement. HR also aims at determination of quantity and quality, estimating demand for future, anticipating specific jobs, determining sound recruitment and selection policy and finally controlling costs involved during this process.

There are different categories of manpower requirements in tourism management, operations etc. A strategic policy helps to identify the requirements and provides HR with a strategic vision. Accordingly, the training and development of tourism professionals will benefit such operational areas such as tourism planning, tourism marketing, tour designing and management, ticketing, hospitality management, product development and also tourism research and consultancy. Subsequent evaluation and constant monitoring holds the key towards updating the HR programmes in the above mentioned areas. An open system approach will contribute immensely to the development of the organisation.

Keeping in view the large scale requirements of trained manpower in tourism industry, tourism recruitment boards can be established at various levels. The institutions imparting tourism education should lay focus on career growth and opportunities. Necessary re-structuring of the curriculum, making it industry based, giving practical training and exposure in functional areas, is always in the productive interest of the organizations.

Characteristics of Tourism as a Service Industry

The tourism industry and the products and services that fall under its elaborate umbrella, are complex and diverse. There are a number of features that make it unique.

1. **Tourism is a subjective experienc**e and an amalgam of products and services. Tourism products, like all services, are intangible in character. The selling of tourism involves selling of images.

2. **The Tourism product is not a *homogenous* product.**

A service cannot be standardised. Hospitality industry attempts to standardise its rooms and service delivery as efficiently as possible through staff training and quality control procedures. But the human factor poses challenges. As most services require interaction between the producer and consumer, each with their own set of interests, perceptions of

value and expectations, it is highly unlikely that any product can ever be viewed equally by all customers. External factors can also affect and influence the tourist experience. An unexpected rain can spoil a sunbath experience.

3. Tourism Products are Perishable.

An unsold hotel room, an unused aircraft seat, and a vacant concert hall mean that revenue is lost. They cannot be stored for later use as can tangible products. Therefore there are high chances of offers / incentives / discounts in services.

4. Demand Fluctuation

This is an intriguing problem confronting the tourism operators. Tourism is perhaps more vulnerable than any other industry to seasonal fluctuations in demand. Demand fluctuation can be unseen, may occur due to natural causes, and sometimes due to manmade reasons. Uncontrollable acts include climatic and natural disasters. Acts of man include pilots strike, wars, riots, killings, etc.

5. Decentralized Character of the Industry

Tourism is a diversified and decentralized industry. The business imperative that drives tourism shifts according to the location as do the environmental, social and cultural impacts of tourism on particular communities. Different tourism products have different trade associations such as hotels, travel agents, tour operators, tourism co – operatives, and transport coaches.

6. Driven by Private Sector

Governments mostly act as facilitators and encourage the private sector through policy decisions, grants, subsidies and provision of licenses to operate. Governments shape the environment in which the industry operates. The onus is now on the private sector to catalyze tourism development in most destinations of the world. Slowly, tourism entrepreneurs are becoming the visible face of the industry.

7. The Challenge of Over-Consumption

Tourism is one of the few service industries in which too many users can be devastating. This applies to the social and environmental impacts on local communities. Several eco-resorts, wildlife sanctuaries, and national parks have a policy of regulating the number of visitors.

8. High Inter-Dependency Among Associated Sectors

A striking feature of tourism is its high degree of inter–relatedness. For example, a hotel cannot be set-up without adequate infrastructure such as water and power supply and superstructures such as airports and communication facilities.

9. Profitability in Tourism Operations

Many sectors under the umbrella of tourism complain about low profits. High capital and low returns mark the functioning of some tourism projects. Seasonality and staff turn-over poses hassles for the ventures claiming to operate on a low profit. The governments and its corporations and financial institutions have realized that tourism has a bright future and is a profitable one. Yield management has become the main concern of many a tour planner.

10. Market of Buyer's

Tourism, over the years experienced the change from a seller's to a buyer's market. Tourism marketing leaves much to be desired in terms of strategic positioning and ethical considerations. The Interests and needs of tourists are changing rapidly and the major tourism wholesalers are struggling to respond effectively. The paradigm of tourism, today, is defined by tourists. They are well aware and are capable of making decisions.

11. Tourism is a Small Business Industry.

Tourism is considered to be a classic small business industry. The reason for small business concentrations is the ease of entry into the industry. Anyone with a house boat, a farm, or a tree house can set-up business targeting tourists.

Tourism and Services Marketing

The tourism marketing mix comprises apart from the traditional marketing mix of four 'Ps", the three special 'P's devised for services i.e. people, process, and physical evidence. Like in any other service industry, in tourism too, it is the people who deliver the product. The service processes are varied and complex, which need to be attended to with lot of care. The place of consumption determines the quality of the tourism product, i.e., physical evidence. These three 'P's – people, processes, and physical evidence are vital components in managing the service value and creating customer satisfaction.

People

The tourist come into contact with lot of people who facilitate their travel right from providing information of the destination and travel formalities to ensuring comfortable journey and stay. The staff at the airport and airlines crew plays a pivotal role in transmitting quality service to tourists and thereby serves to create a good image for the airlines. Similarly, the skills and services offered by tourist guides, mainly in terms of disseminating accurate information about the tourism spots and tourism products paves the way for tourists' satisfaction. People who come up with professional and value based services both in public sector and private sector help a great deal in ensuring the growth of the industry.

Process

Process includes all practices procedures, steps, schedules, etc. which are carried out by the people engaged in tourism promotion and development. Some processes are to be compulsorily followed like taking boarding pass, filling up hotel registration forms and embarkation and disembarkation forms. Certain processes such as baggage and security checks at airports may be sometimes time consuming. The authorities need to maintain minimum formalities involved in tourism processes as rigid regulations may hamper tourists' interest.

Physical Evidence

The quality of tourism products is reflected by the physical evidence of the place. For the tourism designers, it is difficult to estimate the level of satisfaction tourists would derive from the offerings. The tourists too depend heavily on the physical evidence to select the products from a wide range of options available to them. Tourism promotional literature projects an ideal image of the destinations and products for the tourists to make an easy choice.

Physical evidence attempts to give tangibility to the intangible service products of tourism. For example, the cleanliness, ambience, comfort and location of a restaurant along with the neat uniforms of staff invite the attraction of tourists.

Emerging Trends in Tourism

Tourism industry, world over, is undergoing a paradigm shift. Tourism is characterized by constant change and development. Tourists are always looking for services

and offerings that give them unique experiences along with comfort and value-for-money. Hospitality industry has redefined the concept and established boutique hotels, ecotels, etc to pamper tourists with the latest and the best in services and products.

Tourists prefer experiential vacations and the trend is towards ethnic, monsoon, and rural tourism. The emphasis is on rest, health, relaxation, and wellness. Long haul travel is receiving excellent response.

MICE tourism has grown to greater heights with destinations setting up conference and convention centers of international standards and amenities. In some destinations, gambling tourism is hugely popular. Casinos are centres of tourist attraction there. Cruise tourism, volountourism, Doomsday tourism, spiritual tourism, and literary tourism have become very famous among tourists.

ICT has provided great benefits to tourism distribution systems. With the advent of IT, making reservation is not at all a tedious process. ICT has changed the business of selling tourism products and services.

Public Private Partnership or Public Private Participation created the platform to set-up and operate new tourism projects. The synergy between public and private sector tourism enterprises is exploited to boost the image of the destination. PPP attracts investment in the tourism sector in order to upgrade infrastructure facilities as well as to market tourism destinations.

Characteristics of Tourism Industry

The characteristics features of tourism industry make it different from other industries.

Highly Capital Intensive

Tourism is a highly capital intensive industry which require high capital for its operations.

Large Source of Foreign Exchange

Tourism brings in foreign exchange earnings in large chunks. The foreign exchange derived from tourism industry is devoid of leakage effect and is helpful in setting the balance of payment situations right.

Heterogeneous Industry

Tourism industry is not concerned with a single activity. It is a series of activities. It is a combination of different organisations having diverse functions.

Dynamic Industry

This industry is characterized by changing ideas and attitudes, fashions and trends.

High Level of Co-Ordination

Since it is an industry which is service oriented, high level of co-ordination is necessary, mainly for standardization.

Labour Intensive Industry

Tourism is a major employment generator. It provides jobs to the unemployed. Tourism provides direct employment, indirect employment and induced employment. Tourism industry is one which provides more employment opportunities for women.

High Level Seasonality

The industry is marked by a fairly distinct seasonality rhythm. Seasonality problems bring in seasonal unemployment especially in beaches, resorts, etc.

Speed and Continuity

Tourism industry grows at a tremendous pace and is much faster than any other industry and international tourism is one of the few export industries which has shown continuous growth.

Primarily a Service Industry

Tourism industry does not produce any goods but only services. It is primarily a service industry and a large portion of those engaged in it find employment in tertiary industries like hotels, travel agencies, transport agencies, etc.

Complementary Functioning of Elements

Tourism does not exist in isolation. The different components of tourism are in association with each other.

International in Character

Tourism as a service industry is international in character both in terms of demand and supply.

The Service Sector Linkages of Tourism

Tourists are motivated to visit particular tourist attractions or destinations to fulfill their needs and desires. Therefore, the primary duty of the tourism industry is to look after and cater to the needs of the tourists during the course of their visit. The following are the very essential constituents of tourism (core and ancillary) that serve to establish its linkages as major components of the service sector.

1. **Transport**

It is the most essential service needed by a tourist to reach a destination. The travel needs and interests will be suggested to a travel agent or a tour operator and it is professionally organized. Today, the travel industry is a highly developed industry with excellent service in the different areas of transportation which includes road, rail air, and water.

Tourism involves the movement of people. Consequently, the relationship between tourism and transportation is very important. In most cases, tourism has developed in those areas where extensive transportation networks are prevailing. Tourist transportation can be defined as the means to reach the destination and also the means of movement within the destination. The major tourist services required during the journey in tourism are supplied by passenger transport which provides the means of movement at the destination. Tourism demand has stimulated the swift development of transportation. Tourists expect safe, comfortable, and fast journey to their destinations at a reasonable cost.

Tourist's choice of mode of transport is influenced by factors such as:

1. Distance and speed
2. Safety and comfort

3. Status and utility

4. Competitive pricing

5. Geographical position and proximity

6. Range of services offered

Automobiles are the key drivers of road transport. Recreational vehicles (RV's) offer residential accommodation. Development of automobiles revolutionised travel.

With the invention of rail travel in Germany in the seventeenth century began the mass movement of people. The railways is the most convenient and the most popular mode of travel all over the world. Trains are considered to be safe and economical. The development of railways has had great effects on the mobility of people as well as goods. It has also facilitated the development of tourism. Kaleidoscopic view of destinations is offered by tourist trains. In India, Palace on Wheels in Rajasthan and Deccan Odyssey in Maharashtra are popular tourist trains. The Indrail passes are targeted towards attracting tourists to travel across the length and breadth of the country.

As far as water transportation for tourism is concerned, cruise tourism has become a huge success in the recent past, Backwater tourism is promoted with the popular house boats as its USP. Water transportation could be broadly divided into short ferry transport and cruises in the ocean. Tourists vying for water borne experiences have some more options such as hovercraft, hydrofoil, and catamaran.

Air travel is one of the most popular modes of tourist transport, especially for international travel. Air transportation is the preferred mode of travel of business tourists and long-haul travelers. This mode of travel saves time as it offers fast means of travel. Air transport comprises both scheduled and chartered services and in the case of certain countries- the air taxis.

In the development of tourism, globally, air transport has played a significant role. The promotion of helicopter tourism is focused on linking major tourist destinations in a region by way of initiating helicopter services. The heli-tourism product enables tourists to travel from one destination to another in quick time while enjoying a bird's eye view of the marvels at the destination.

International air travel is regulated by International Air Transport Association (IATA). Airlines offer promotional fare like excursion fares and group fares to attract tourists. The future of air travel is exciting which a positive sign for international tourism is. Now, there is intense competition in the skies which is yet another good sign for tourism.

2. Accommodation and Catering

A tourist during his travel to and from the destination has to stay at some place. Therefore accommodation is one of the primary tourist service needed at a destination. A tourist also needs to have food and beverage and there lies the role and significance of catering.

Accommodation facilities constitute one of the most important parts of tourist supply. A hotel can be defined as a place where a prospective guest can be provided with the following.

   a) Accommodation
   b) Food & Beverage
   c) Entertainment
   d) Services

The place must be provided for a value. The value is usually paid in the form of price. Hotels can be classified according to their location (motels, resorts, floatels, down – town hotels, sub-urban hotels), size, length of stay, types of plan (Continental Plan, European Plan, American Plan, Modified American Plan, and Bermuda Plan), facilities, and types of clients.

Tourists seek a wide range of facilities and services which are provided by the industry at different stages of the tour. Supplementary accommodation plays a very important role in the total available tourist accommodation in a country. These types of accommodation can cater to both international as well as domestic tourist traffic. Some principal forms of supplementary accommodation are youth hostels, caravan and camping sites, pension, Bread and Breakfast establishments, house boats, tree houses, home stays, and tourist bungalows.

A new classification of hotels has emerged targeting heritage tourists, viz, the heritage hotels. Heritage hotels have been introduced to cover functioning hotels in palaces, forts, havelis, castles and residences built prior to 1950.

3. Entertainment

Tourists are always on the lookout for avenues of entertainment and fun at the destinations. Different forms of entertainment and recreation are provided as attractions at the destinations.

Entertainment makes a significant impact to our lives in this age. Entertainment and tourism works hand in glove and we find entertainment at hotels and restaurants, shopping malls, media, and literally every nook and corner of premier destinations. Multiplexes, Snow domes, IMAX theatres, family entertainment centres, food courts, golf courses, go-karting centres, etc. are hubs of entertainment. Also, there are museums, amphitheatres, sporting events, nightlife entertainments, sporting events, festivals, live music, opera, dance, gambling, etc. that attract a lot of tourists across countries of the globe. Disneyland in USA is a classic example of entertainment tourism promotion.

4. Intermediaries

Intermediaries play a dominant role in the tourist business. The intermediaries are constituted of the travel agencies, tour operators, guide services, online travel portals, etc. The travel agent or tour operator is a useful and invaluable intermediary between the tourists and the suppliers of tourism services, e.g. airlines, hotels, car/coach rentals, transport companies, etc.

Travel agencies and tour operators are primary service providers who play a vital role in the promotion and development of tourism. The origin of travel agencies can be traced back to the year 1841 when Thomas Cook organized the first package tour. The functions of the travel agency depend upon its size, location, and the extent of the activities it is involved in. The functions of a modern travel agency has increased and widened ever since the introduction of air travel. The major functions include – provision of travel information, preparation of itineraries, ticketing and reservations, provision of foreign currencies, travel insurance, etc.

A tour operator designs ready-made and tailor–made itineraries and make the necessary arrangements for chosen holidays. Tour operators are professionals who possess all the required skills, expertise, and knowledge of organizing travel. The tour operator assembles all the different components of travel and sells it as a package tour, to and from a destination with full ground arrangements. Most of the tour operators have their own fleet of vehicles to cater to the transportation of tourists. The major types of tour operators are inbound tour operator, outbound tour operator, and domestic tour operator.

5. Government Departments/Tourism Organisations/Tourist Information Centres

Many organizations, both at national and international levels, related to tourism, play a vital role in the tourism industry.

6. **Ancillary Linkages**

Banking Sector – Tourism has a close association with the banking sector in that tourists will require services such as foreign exchange, money transfers, travelers' cards, etc.

Insurance – Travel insurance both for personal accident risks and for baggage has become a dire necessity for modern international and domestic tourists. A close networking with insurance companies is maintained by the tourism industry.

Information Technology – ICT enabled services has effected a paradigm shift in tourism industry. Websites of tourism destinations and service providers are extensively used for tourism promotion. Online bookings and e-ticketing have become the order of the day. Software development for hospitality industry is thriving as per the diverse needs and requirements. Global Distribution System such as Galileo, Amadeus and Sabre is sought after by travel agents, airlines, and GSA's. Global Positioning System (GPS) software is also used a great deal for tracking destination features and attributes.

Hospitals - Medical tourism may be defined as the provision of "cost effective" private medical care offered by hospitals in collaboration with the tourism industry for patients who need surgical and other forms of specialized treatments. The tourism developers form consortiums with hospitals and act as facilitators of medical tourism.

Media – Media both print and electronic plays a decisive role in tourism promotion. Travel programmes and documentaries on tourism destinations enhance the image of tourism industry. Media campaign motivates tourists to visit a destination. Travelogues are telecasted over media to the benefit of tourism destinations. Travel journalism is a specialized and challenging field.

Primary Sector Enterprises in Tourism Industry

They are directly related to tourism.

- Accommodation establishments
- Food and beverage services
- Tourist transportation services
- Travel agents
- Tour operators

- Interpretation / guide services
- Entertainment services (Theme parks, night clubs, dance halls)
- Enterprises manufacturing art products (handicrafts, souvenirs, guide books, etc)
- Shops selling handicrafts and souvenir items
- Duty free shops
- Agencies involved in promotion and development, financing, and providing insurance coverage.

Secondary Sector Enterprises

They do not depend solely on tourism for their survival but make substantial contribution towards tourism development and promotion. They provide goods and services to the primary tourism enterprises and also directly to the tourists.

- Local restaurants
- Rail, air and other public transportation services
- Marketing, public relations, and advertising firms
- Beauty parlour, laundries, health parlours, foreign exchange centres, etc.
- Manufacturers of plants and equipments required by hotels, motels, etc.
- Construction industry
- Automobile industry

Tourism Business –An Overview of Direct and Indirect Enterprises

Direct	Indirect
Hotels and motels	Construction industry-food services- catering service
Restaurants	Food production & transportation
Airlines	Air craft manufacturing, Computer Reservation System and catering agencies, airport terminals
Car rentals	Auto manufacturing companies
Cruise/ship industry	Ports/harbours, ship building centres
Travel agencies	Computer systems, publishing companies, advertising companies

➢ Amusement parks	Equipment manufacturers
➢ National parks/Sanctuaries	Natural resources, management systems
➢ Urban & Rural parks	Parks management system, entertainment units
➢ Tour operators	Motor coach manufacturing companies, airlines, railways, auto rentals
➢ Tourism attractions	Community services, shopping malls, museums
➢ Tourism promotion	State/National tourism offices, advertising business, and media enterprises

Infrastructure and Superstructure in Tourism industry

Tourism business, in order to flourish in a particular destination requires the installation of necessary infrastructure and superstructure facilities even before the tourists starts coming to the destination. Therefore, during the development of tourism lot of money has to be spend for establishing infrastructure and superstructure.

Tourism infrastructure includes

➢ Highways and roads
➢ Airports
➢ Railway lines & stations
➢ Bus stands and terminals
➢ Drainage
➢ Water supply
➢ Electricity
➢ Parking lots
➢ Sewage disposal systems
➢ Communication systems etc.

Super structure include

➢ Hotels and catering establishments
➢ Places of entertainment
➢ Transportation network (air, water, land)
➢ Tourism Organizations
➢ Recreation facilities

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- ➢ Shopping centres
- ➢ Banking facilities
- ➢ Travel Agents & Tour Operators
- ➢ Insurance companies
- ➢ Press & Media
- ➢ Publishing firms
- ➢ Police, customs, immigration
- ➢ Post office, telephone booths
- ➢ Internet cafes
- ➢ Laundries
- ➢ Beauty parlours, saloons
- ➢ Clinics, medical centres, pharmacies

TRAVEL DEMAND INFLUENCED BY	TRAVEL TRADE INTERMEDIARIES	TOURISM DESTINATION INFLUENCED BY
• Escapism from stress and drudgery • Health • VFR • Ethnicity • Business • Pleasure • Incentives and offers	• Travel Agents • Tour Operators • Transport companies • GSA'S • GDS	• Historical Reasons • Climate • Culture • Entertainment and Arts • Adventure • Leisure • Wildlife • Shopping • Handicrafts

Primary Elements of International Tourism and its Influences on the Market

Summary

Tourism emerged as the largest global industry of the 21st century and is poised to achieve phenomenal growth in all sub-sectors. This lesson discusses tourism as primarily a services–based industry. The main products provided by tourism businesses are experiences, hospitality, and enjoyment. These are intangible in character and are more difficult to market.

The intangible nature of services including tourism makes quality control difficult even though it is of vital importance. It is also difficult for tourists to evaluate and compare services offerings. Nowhere is service quality more relevant than in tourism. By its very

nature, the tourism products are services driven, making the product value intrinsically linked to the level of services offered.

As such, the tourism offering is a service that has a number of related characteristics. If at any stage in the tourism life cycle, the service is not at par, it will affect the level of satisfaction of customers and their buying behavior.

Tourism as a component of the service sector has turned out to be a highly competitive one. There are so many players involved in processing a single service. In this context, consistency is of paramount importance. Furthermore, the quality of services provided throughout the tourist's experience can differentiate one service provider from the other. Tourism being a dynamic industry dominated by the human touch, personal service virtually pervades every activity in tourism.

Services in tourism need to be differentiated and thereby unique tourism experiences have to be meted out to tourists, which is an effective way of maintaining strong loyal customer base. Distinct service quality gives the service provider a very powerful tool to overcome many other kinds of shortfalls.

In tourism industry, there are two ways of differentiating services and providing unique offerings to tourists.

➢ Based on tourist's preferences
➢ Based on nature of services provided.

The services related to tourism include airlines, hotels, transportation, security, entertainment, sanitation, healthcare, insurance, banking etc, and institution-based providing other amenities at the tourist places. Firms in these sectors extensively use different types of service marketing strategies in order to have excellent business prospects. They have to necessarily attend to the vital aspects of a tourism–service offering such as intangibility, inseparability, variability, perishability, ownership, complementarity, uniqueness, parity, dominant role of intermediaries, diverse motivations, and seasonal demand.

Tourism operatives like those in any other service-oriented industry, have a spectrum of marketing channels to choose from. The available channels vary from travel marts, advertisements, tourism promotional literature and websites to travelogues in print and electronic media.

This lesson comprehensively deals with the facets of tourism management and depicts the nature, components, types, and characteristics of tourism. The reasons for conferring industry status for tourism are analysed. Ten characteristics of tourism from the perspective of a service industry are featured in this lesson. The three important P's of tourism marketing, viz, people physical evidence, and process are illustrated. The service sector linkages of tourism with reference to all the core and ancillary sectors are also explained with examples.

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Lesson 4.2 - Service Design and Development

Learning Objectives

- ➢ To study the importance and perspectives of service design
- ➢ To understand the characteristics of service design.
- ➢ To know the major factors in service design.
- ➢ To elucidate on service blueprinting.
- ➢ To analyse the challenges of service designing.
- ➢ To study the need and stages of new service development
- ➢ To examine the methodology of service design.

Introduction

"Service can be designed but experience cannot be designed"

Service is an act or performance. It is provided by the service delivery system comprising facilities, processes and skills. The service package includes:

a. The physical resources
b. The goods that are purchased or used by the customer
c. Explicit services
d. Implicit services

Service design is the activity of planning and organizing people, infrastructure, communication, and material components of a service is order to improve its quality of delivery and the interaction and relationship between service providers and customers. Service design methodologies imbibe customer-centric approaches, thereby infusing user-friendly and competitive attributes in the services. The main focus is on the relevance of services to the customers. The mainstay of this process is developing an understanding of the behavior of the customers, their needs, desires, and motivations. Customer involvement and their insights through feedback enable the service designers to frame a concrete plan. The observations are processed to generate concepts and ideas that are visually projected, say for instance in sketches or service prototypes.

Service design tends to draw the changes to an existing service or development of new services. All service organizations go through varied choices about the types of products to offer and the operational mechanisms involved in creating them. In an organization with a customer–centric approach, these choices are often lead by market factors, with companies seeking to address the explicit needs of niche market segments and to differentiate the features and characteristics of their offerings against those of the competitors.

Service design is focused towards creating for the existing services of a company new methods of delivery that bring about a makeover in the nature of the service experience eventually promising new benefits. For example the development of online banking service design makes use of technological advancements to further nourish the tangible and intangible aspects of service (like the online music stores) to satisfy the latent needs unexpressed by the customers.

A service product is composed of a core product bundled with a range of different service elements. The core elements of service address the need for a basic benefit, such as treatment for a specific health problem, a professional solution to a technological problem, or the repair of a malfunctioning device. The supporting services facilitate and improve the use of the core service. They range from dissemination of information, consultation, warranties and documentation to trouble shooting and hospitality offerings.

Service designing is a challenging task because it requires an ideal creative vision about processes, people, and experiences as well as outputs and benefits. Processes may be recorded through blue prints that determine tasks of staff and their operational sequences. It also checks the experiences of the customers at every step of service delivery. One of the main objectives of service design is to prepare a blueprint for a service operation.

The various stages in service design may be presented in a nutshell as service design and testing, processes and operations design and testing marketing functions design and testing, human resources training, service verification process, and test marketing.

Service Development involves creation of new service aims and strategies, idea screening, and concept development and testing.

Service design is driven by the incredible progress made by Information and Communication Technology (ICT). It serves to introduce new services in the existing markets. Service design also augments existing service line of businesses. For example the innovative menus in restaurant chains. Service improvements are the much desired outcomes of service design which transform the features of currently offered services.

E-commerce through Internet taps the information revolution and is an apt illustration for technology driven service innovation. The modern aircrafts too subscribes to the latest designed jet planes, enabling travelers to reach the destinations at a fast pace with great comfort.

The goal of service design is to find ideal solutions to the customers' problems by ensuring that all the employees strive to put together products and services in such a fashion as to work efficiently. The blue printing, which is part of service design saves customers the time and energy and offers them value added service. Customization of services is another advantage of an impeccable service design. Quality service design aids to provide exactly what the customers want and deliver it where it is required. Retail businesses adopt finest service design mechanism to ensure utmost customer satisfaction. Moreover, service delivery facilitates high degree of customer contact. As regards the production line, it defines division of labour and standardise the services.

Service design must be a rational and systematic process. While designing a service, the processes constituting the service need to be identified, areas of potential service short falls outlined, the time required for service delivery determined, and a standard of service delivery time must be set to ensure good prospects. Alternative/contingency methods of delivery must be examined and means of emphasizing tangible symbols of the service for consumers should also be identified. Performance Standards of services will be enhanced which is a positive outcome of an efficient service delivery. Another positive result is that the credibility of service will also improve a lot. Modelling and blue printing of service offer a system for marketers which can eventually lead to the kind of management and experimentation required for service innovation and development.

The key aspect of service design is to increase the volume of service to a level sufficient enough to achieve efficiency and use systems and technologies which produce stable, dependable, fast, and low–cost service results. Service industrialization needs a set of processes and management that is much different from that employed in the functional production of goods. Service design enables service encounters to enhance customers' expectations during the processes as well as track their recollections of the process after it is completed. Service design or redesign should be closely linked to an organisations strategy. Health and safety must be primary concerns of service design.

History of Service Design

Shostack (1982; 1984) delved on the activities of designing service which was considered to be part of the marketing and management disciplines. He proposed the integrated design of material components (products) and immaterial components

(Services). According to Shostack, this design process can be recorded and finetuned using a service blue print to map the sequences of events in a service and its essential performances in an objective and explicit manner. It was in the year 1991 that service design was first introduced as a design discipline by Prof. Dr. Michael Erlhoff at Koln International School of Design (KISD), and Prof.Birgit Mager has played a significant role for furthering the study of service design at KISD. In 2004, the Service Design Network was launched by KISD, Carnegie, Mellon University, Linkopings Universitet, Domus Academy, and Politecnico di Milano for creating an international network for academics and professionals of service design.

Major Factors in Service Design

- Cost
- Quality
- Comfort
- Speed
- Manpower
- Marketing
- Maintenance
- Customer Involvement
- Customer Satisfaction
- Customer Delight
- Competitive advantage.

Need for Service Design

- Transition of Markets
- New Opportunities
- Macro Environmental Threats

  - **Economic** - implication of low demand, inflation, needs to reduce costs, loans, and overwhelming warranty claims

  - **Social and Demographic** – ageing population, growing disposable income, social values & customs

  - **Political** – unstable governments, biased policies, coalition, new regulations, autocracy, safety and security issues, serving moneyed sources

- **Legal**- Stringent legal framework, rigid laws

- **Competitive** – new or changed services, new campaign

- **Cost**- raw materials, labour cost, cost of components

- **Technological processes**- switch over to new practices, outdated technology, lack of human touch

Objectives of Service Design

Main Focus

- Identifying customer needs
- Understanding customer wants
- Attracting and motivating potential customers
- Customer satisfaction

Secondary Focus

- Service function
- Cost / profit
- Quality of service
- Service delivery
- Service channels
- Ease of service
- Customer feedback and evaluation

Lack of effective service design may lead to

- Low productivity
- Substandard quality
- Increased costs
- Time Wastage
- Deterioration of professionalism
- De-motivation of HR
- Customer Dissatisfaction.

Characteristics of Service Design

1. Service design is the specification and construction of technologically organised social practices that deliver value-based benefits to a particular customer.

2. Service design outcome is intangible by nature.

3. Characterised by simultaneous production and consumption.

4. In an abstract sense, services can be called networked intelligence.

5. Services cannot be inventoried or stored.

6. Services may involve artefacts and other things including communication, interface, environment and behaviours.

7. Location is crucial for service.

8. Degree and duration of customer contact is far more in service and hence the range of service system is very wide.

9. No service designer can prescribe the form and characteristics of any emotional value produced by the service.

10. Demand variability creates underutilisation or unutilisation of service resources.

11. Service design is always from the customer perspective.

12. Cost and efficiency are key variables in service design.

13. Personalised service makes more impact.

14. Customer participation is very high in service.

15. Service design has to be user friendly.

16. It has to be sustainable.

17. Must provide value to customers.

18. There are strong linkages with back office.

19. Service design must ensure reliability and high quality.

Major Challenges of Service Design

1. Distinctive and varied demands.

2. Services cannot be measured or evaluated.

3. Customer contact is very high.

4. Customer's expectation during service encounter fluctuates and hence cannot be determined.

5. Achieving competitive advantage is very difficult.

6. Customization has many imperatives.

7. There is a need for continuous improvement in service design.

8. Time to market is very less.

Service Design Methodology

Service design requires tools and methods to develop and control new elements of the design process such as the speed, efficiency, time and the communication between the players. Morelli (2006) proposed a general view of the methodologies for designing services.

The three main directives of the proposal are:

➢ Determining the players involved in the dynamics of the service, using appropriable analytical tools.

➢ Defining possible service opportunities, verifying cases, sequences of performances and players role, in order to define the requirements for the service and its logical and organizational structure.

➢ Portraying the service, using techniques that illustrate all the components of the service, including physical aspects, interactions, logical links, and temporary sequences.

In service design methodology, the analytical tools refer to social studies, ethnography, anthropology, demography, and technology profiles. Appropriate descriptions of the tools have been proposed with video ethnography (Buur, Binder,et al. 2000; Buur and Soendergaard, 2000), and various observation techniques to collect data about user's behavior (Kumar, 2004). Certain other methods such as cultural probes have been developed in service design discipline, which aim at gathering information on customers in their context of use (Gaver, Dunne et al. 1999; Lindsay and Rocchi, 2003).

The tools of service design aim at creating a blue print of the service, which explains the nature and characteristics of the encounters in the service. Design tools include service scenarios (which describe the interaction) and use cases (which outline the details of time sequences in a service encounter). When used in service design, the techniques are adopted to include more information on material and immaterial components of a service, time sequences, and physical flows (Morelli 2006). Other techniques namely IDEFO and Total Quality Management (TQM) are used to produce functional models of the service system

and to control and monitor its processes. However, such tools seem to be too rigid to describe services wherein customer participation is more and there is continuous variation related to the customer's behaviour.

The end users are not accustomed or familiar with the technical language and hence to facilitate effective communication of the inner mechanism of services to the customers, representation techniques are of crucial importance in service design. Video sketching, video prototypes, etc. are used to produce fast and effective tools to stimulate customer's involvement in the development of the service and their pro-active participation in the value production process.

Service Blueprinting

Service Blueprinting is a method used in service design to explain and analyse a proposed service delivery. It is widely considered as the most useful tool for conceptualizing a service delivery system.

The major steps in service blueprinting are:

a) Establishing frameworks and objectives
b) Determining sequence of customer interface (a flowchart is prepared)
c) Development of time estimates
d) Identifying and planning for potential shortfalls.

Apart from service blue printing, customer experience map is another service design tool that is used by some prominent service companies.

It is true that the customer perspective needs to be integrated in the service design process. To analyze new processes, multidisciplinary and participatory work can be used through prototype testing or performance analysis.

In the service system, blueprints simplify service complexities by representing the operations of existing systems. The current set of operations gives directions to the management to chalk out plans for operations in future. The service blueprints are task oriented and focus on observable actions or events. It also assists managers in the decision making processes related to framing strategies, resources allocation, integration of service functions, and evaluation of performances. Marketers use blueprints for developing advertising and promotional campaigns. They can also determine the key service elements that lead to customer satisfaction. Detailed blueprints are used extensively in Research

and Development (R&D) functions. Human Resource managers use service blueprints for preparing job descriptions, selection criteria, performance review and appraisal, and compensation package. Managers engaged in training can use the blueprints for setting training objectives and developing task based training materials. Detailed service blueprint is a flow chart and technology experts can evaluate the need for new customised softwares by adopting the service blue prints.

New Service Development

New service development is the most important phase of service management. A dynamic organisation's vision will extend beyond its existing service. In this context, the innovative capabilities in terms of service design and development is the essence of growth of the organisation. The 21st century is witnessing rapid scientific and technological advancements. The service businesses must align with the progressive attributes of the age and offer new services. Further, like products, services too will pass through their life cycle and therefore offering new services in lieu of services moving to the maturity or decline stage turn out to of paramount importance. New service development is considered to be an opportunity to meet the unrealised/unmet needs of the customers. Customer retention is directly related to the newness of a service or product. To retain customers, service companies introduce new services. New service development can also go a long way in the optimum utilization of the spare capacity.

Types of New Services

Philip Kotler stated the following reasons for a product to be labeled as a new one.

1. New to the world.
2. New to the market
3. New to the firm.

Because of the intangible characteristics of service, Lovelock identifies five types of new services, which may range from cosmetic style change to major innovation.

a. **Style change**- This refers to changing only the tangible elements of the service, for example, the change in uniform of a restaurant staff or make-over of the physical evidence of the restaurant.

b. **Service improvements**- This refers to the changes in the basic features of the service that is currently being provided in the market, through value – additions,

modifications, and improvements. The operational efficiency is bolstered through such improvements. For example, computerization of speed – post bookings and registration of parcels in post offices.

c. **Service line extension**- This involves adding more to the existing service line such as setting up banks in rural areas.

d. **New services**- This refers to the attempt of the service firm to offer new services to the existing customers. For example, battery charging along with car washing.

e. **Major innovations**- This represents the outcome caused by state-of-the-art technological inventions or research and development.

Stages in New Service Development

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┌─────────────────────────────┐
│      IDEA GENERATION        │
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              ▼
┌─────────────────────────────┐
│      SCREENING OF IDEA       │
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│       CONCEPT TESTING        │
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│       BUSINESS ANALYSIS      │
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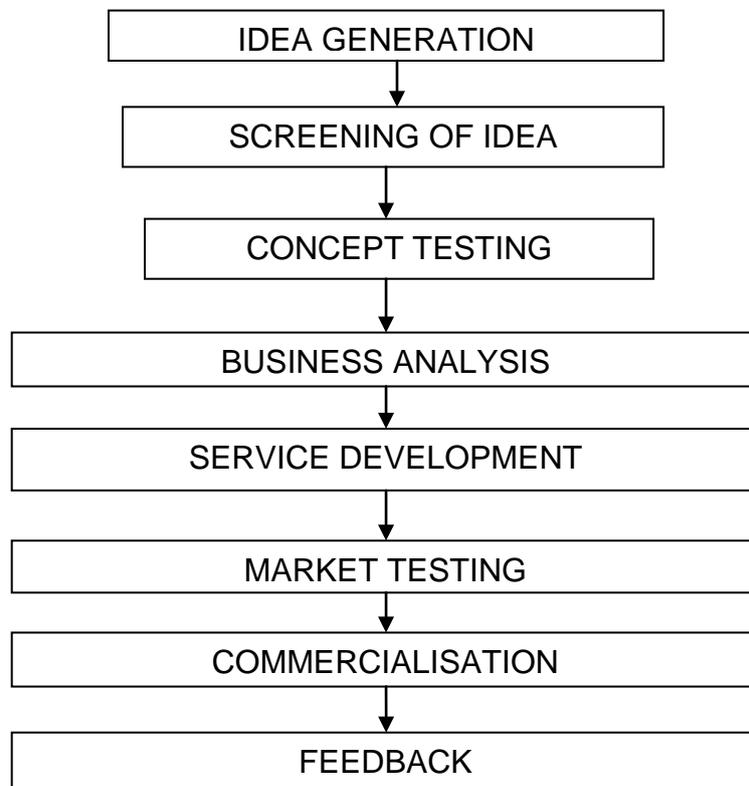
The Stages of New Service Development

The stages are described as below:

1. **Idea Generation**: the nature of new service will be in tune with the goals, mission, vision, capabilities, and prospective plans of the organisation. Determining new service strategies is at the crux for the organization to start generating specific ideas.

The ideas can be generated through internal and external sources of the organisation. Ideas can be collected from sales and marketing staff, customer service executives, and customer relations staff. The front line staff is expected to give feedback related to the external environment, i.e. competitors and customers. Brainstorming sessions involving deliberation of frontline employees and management staff is a regular activity in service organization to form and develop new ideas. New ideas may also emerge during the actual rendering of a service.

External sources for idea generation may include customers' evaluation of competitor's strategies, creative inputs of experts, marketing information system, and gap analysis. Effective customer interaction can bring to fore key ideas, as it is an important source.

Periodicals related to the service trade, seminars, workshops, and conferences are yet another important source. Market research, which include gap analysis must be carried out continuously to identify emerging markets, evolving market trends, and for matching demand and supply.

The new areas of unmet demands of the customers will be established through market research. Market research is extremely significant in the service delivery process. It defines targeting and positioning functions of a service firm.

2. **Screening of Ideas**: This stage narrow down on those ideas that are pragmatic, potential, and promising to the success of service delivery. The service ideas are screened thoroughly to ensure the consistency of the idea with the company vision, mission, reputation, and capability. The screening also aids in avoiding a poor idea to go further in the new service development stage and put the firm in a fix. Also, a rigorous screening will help the firm positively consider an idea from all practical dimensions, which otherwise may be discarded as a failure rather than adoption.

3. **Concept Testing**: After Screening, the idea is subjected to concept testing. This involves converting the service idea in to the service concept with specific need satisfying aspects. As service is intangible, concept development and testing is more or less bound to be abstract. Concept development is done through presentation of the idea to a selected group with the help of literature and electronic tools to test their reaction. The appreciation and positioning of the service is determined in this stage.

4. **Business Analysis**: The proposed idea is given a business dimension in this stage. The techno–financial and marketing feasibility is analyzed in this stage. This stage

focuses on the estimation of demand, major competitors, future growth, price elasticity of demand, cost-volume–profit analysis, marketing strategies, and the macro environment forces. The service organization will more on to the next stage after analysing the viability of the information.

5. **Service Development**: In this stage, the business proposal is shaped into the actual service that will be offered to the customer. The tangible aspects as well as the service delivery process will be designed at this stage. The marketing campaign, pricing policies, staff recruitment & training, and the method of service delivery are developed in this stage.

6. **Market Testing**: The service is now ready to be launched in a test market. This helps the firm to analyse the marketing mix elements and rectify the short comings in order to successfully introduce the service. Designing a test market environment requires creativity and analytical skills.

7. **Commercialisation**: The service is launched to a larger audience and the firm starts earning revenue. The service also starts rolling through the life cycle stage from commercialization. The service organization closely monitors the acceptance and demand of the new service and evaluates it to ensure sustained service efficiency.

8. **Feed back**: Feedback is gathered during the introduction of service as the views of the actual market are important for any changes to be made in the service.

Challenges in New Service Development

➢ The new service development process is very expensive, time consuming, and also involves risks.
➢ Go- error (a wrong idea getting clearance) and drop error (a good idea fails to gain acceptance).
➢ Over estimation of market size
➢ Lack of positioning effectively in the market
➢ Ineffective advertising.
➢ Wrong pricing of service
➢ Lack of quality service design.
➢ Competitor may outwit by introducing a fine quality and high value-add service.
➢ Swift changes in technology.

The influence of service design in the public sector has brought about new investments in banks, schools hospitals, cultural institutions, and security infrastructures. Correspondingly, the employment opportunities in public sector have also grown. Along with these, rapid changes in the social milieu and outlook have necessitated the State to consider service design for the re-organisation of public services.

Clinical service redesign is an approach to enhancing quality and productivity in the public sectors. Such a redesign involves all stakeholders to ensure national and local quality standards and effective communication. The Inland Revenue New Zealand has a dedicated Service Design & Implementation group with separate streams focusing on government, customers, and transformation design. Specific design methodologies have been adopted and are being consistently tested.

The Service Design Process

The following are the factors to be considered in the service process design and implementation:

1. The Nature of Service

The service process explains how a service is provided or delivered to a customer. Designing a service delivery system is a creative and innovative process. It is important to understand the nature of service, i.e., whether it is process dependent such as banking, insurance, etc. or it is equipment based such as laundry.

2. Customer Involvement

It goes without saying that for majority of services, customer(s) has to be present during the acts/performances. As regards service, the customer is not just the user, but he has a more, pro–active role in the service delivery. The participation of customer is very significant for service relationships. It can increase the degree of customization. For an effective competitive strategy customer involvement is the key. Self–service is a case in point.

3. Degree of Customer Touch

The physical presence of customer in the service system makes it really unique. The degree of customer touch can be measured in terms of the time the customer is present in the system relative to the total service time. As the degree of customer touch is very high

in the service system, the timing of demand and the nature of the services is determined through customer participation. The perceived quality of service is assessed to a great extent by the customer's experience. In case of service systems with low touch points, customers influence is very less as they are not physically present.

4. Degree of Customisation

Usually a standardised service is designed for high volumes with a shortly defined and focused service. For such work which are routine in nature and require a workforce with relatively low levels of technical know-how there are opportunities for replacement of labour.

But for customized service episodes, more expertise and flexibility are required. In the above cases more interaction takes places between the customer and the service staff.

As the service process is not well defined in customised services, the employees must possess high levels of technical and analytical skills. Service staff is empowered to take decisions to ensure customer satisfaction.

5. Location

Whether the service delivery should be rendered at the service provider's place or should it be offered at the customer's place is a crucial question raised during the service delivery process. Some services like painting, gardening, etc. have to be delivered at home. When customer visits suppliers there is a greater opportunity to control the delivery experience. However many services are being offered without the meeting of the customer and the service provider. For example; ATMs, online travel booking etc.

6. Intensity of Service

Intensity refers to the number of steps involved in service delivery. Whether the service is high or low in intensity can be figured out by scanning the service blueprint. The services offered in a hotel are high in intensity.

Types of Service Processes

Service processes are of different types. The main bases of distinguishing services are intensity of labour and degree of customisation with customers' participation.

1. **The Service Operatives**

   Some service delivery processes have relatively low labour intensity and also low degrees of customisation. These are part of the service operatives. The functions of tourism industry are a classic example.

2. **The Service Outlet**

   In sync with the accentuation of the degree of customisation, the focus on trouble-shooting, after sales service, and repair service will also be more. Therefore, from service operatives, the scale of interaction reaches out to service outlets.

3. **Mass Service**

   Types of Services as in retail operation, educational institutions, and wholesaling where the degree of labour intensity is high with a relatively low degree of interface with or customisation forms mass service.

4. **Professional Service**

   When customisation becomes the hallmark of service as offered by lawyers, doctors, etc, mass service transforms to professional service

Service Design Options

The service design options are realised analysing the following perspectives.

- ➢ **Uncertain service episodes**: This refers to the service company's incomplete inputs on the nature of service expected by the customer, his idea about the ancillary requirements, and how the customer is likely to behave during service episodes.

- ➢ **Extent of customer participation**: This refers to the level of customer's interest in being part of the service proceedings. When customer does not have adequate knowledge, skills, and understanding about the service operations, the extent of customer participation becomes less.

- ➢ **Demand variability**: This refers to the diversity of demands of customers – whether they want the service to be standardised or customised.

- ➢ **Co-ordination of services**: This refers to co-ordination between different divisions / actions delivering a single offering.

The different service design options according to Larsson R. and Bowen D.E. (1989) are:

➢ **Sequential Standardized Service Design**: This is meant to be a customer dominated design such as self service in which customers take care of the service offerings after the goods and facilities are dished out by the employees.

➢ **Reciprocal Service Design**: This involves the synergy of all the parties of the service episodes where the output of each becomes the input for the others. The service outcome heavily depends on the interactions between the front- line staff and the customers.

➢ **Sequential Customized Service Design**: The focus here is on the service staff and the synergy between front office and back office.

➢ **Pooled Service Design**: In this case, the dominant role is played by the back office staff. The provision for customer interaction in mass service is very less and what takes place is customers' sharing of the resources and physical products.
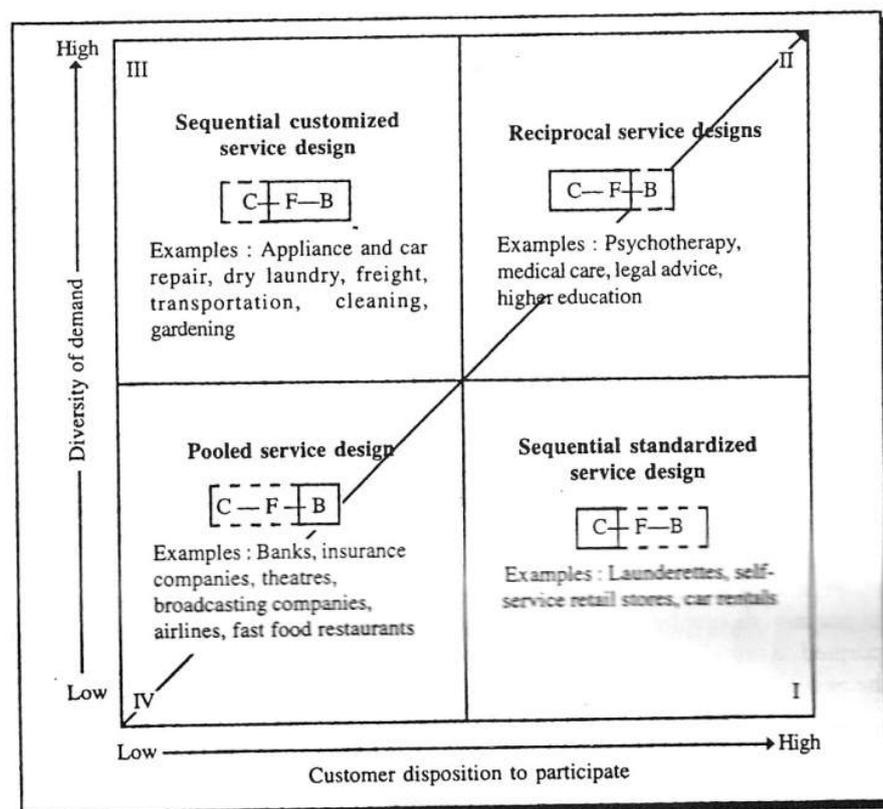
A typology of Service Interdependence Patterns Matching Input Uncertainty

C – Customers; F – Front Office Employee(s); B – Back Office Employee (s);

☐ = Main Locus of Interdependence; = Supporting Interdependencies.

Source: Larsson, R. and Bowen, D.E (1989)

Service Process Redesign

Service process redesign rejuvenates service processes that have become outdated. This does not imply that such processes were badly designed earlier. The paradigm sign shift in technology, customer needs, demand for value–based offerings and features have resulted in the existing service processes getting saturated very soon. The changes in the external environment make existing practices outdated and thereby necessitate redesigning or creation of new process in order for the service firm to gain competitive advantage. The organisational stagnation is yet another reason for adopting redesigning. Institutional stagnation causes natural deterioration of internal processes, increasing bureaucracy or depreciation of standards. The symptoms of these are drastic increase in customer complaints, red-tapism, data redundancy, regulation of value–adding activities, unnecessary procedures, and undesirable delays.

Service blueprints reflects the reasons for failure and suggest opportunities for service improvement that might be achieved by restructuring delivery systems, adding or withdrawing specific elements or repositioning the service to impress upon other segments.

Service process redesign lays stress on enhanced productivity and service quality. Re-organizing or re-engineering the ways in which tasks are carried out has significant potential to increase output. Redesign efforts focus on achieving the following performance indicators:

(1) Downsizing the number of service failures,

(2) Lowering the time taken from customers log in to a service process to its completion,

(3) Improved productivity, and

(4) Increased customer satisfaction. All the four indicators have to be achieved in tandem through the redesign efforts.

Service process redesign encompasses restructuring, rearranging or replacement of service processes. These efforts can be categorized into the following types:

➢ **Pulling out non** – beneficial steps: Services can be streamlined at the front and back end by focusing on the meritorial part of the service encounter. The outcome of such efforts is enhanced productivity and customer satisfaction.

➢ **Moving to self service**: During service redesign, a need for increased self- service may emanate, as in some cases service quality gains can be achieved by adopting that mode.

> **Facilitating direct service**: This form of redesign focuses on bringing the service to the customer instead of bringing the customer to the organisation. This is often undertaken as a matter of convenience. It can also result in more productivity and avoidance of renting building and sites.

> **Services branding**: When the multiple-connected services are bundled focusing on a defined segment, it can increase productivity and make the transaction faster. The marketing cost of each service can also be reduced. For example the tour operations business where the packages bundle all the requisite components such as accommodation, shopping, transportation, entertainment, guide services, etc.

> **Redesigning the physical components of service processes**: Service redesign involving physical tangible elements of a service process brings about changes to the facilities and equipment to enhance the service experience. This leads to convenience, productivity, and customer satisfaction.

Linkages Between Design and Positioning

The way a service is designed will impact the position of the service in the minds of customers. Similarly, the image or position which the organisation wants to establish in the minds of the customers will offer inputs for laying the design framework of the service process. Service design and positioning are closely associated.

The positioning of a service offering is viewed in the manner it is perceived by consumers, particularly in relation to competitive offerings. A service firm or a particular offering of the firm is successfully positioned if it has established a niche place and maintains a distinctive and desirable identity for itself in the customers' minds relative to competitors' firm or offerings. Positioning is crucial in establishing a favourable and ideal new service image. It is also important for existing services in maintaining and reinforcing a set image in customers' minds. Sometimes, service repositioning is employed to transform the image of the service in the minds of the consumers.

Services may be positioned based on a variety of factors, i.e., on the basis of the needs they satisfy, the benefits they deliver, specific service features, their time, place, method of use, and the people who uses them.

The strategies of positioning are based on the quality dimensions of service design. Therefore the perspectives of service delivery design have to take into account the reliability, specifications, empathy, promptness, attitude, durability, responsiveness, USPs, assurance, physical evidence, cost–effectiveness, and tangibles.
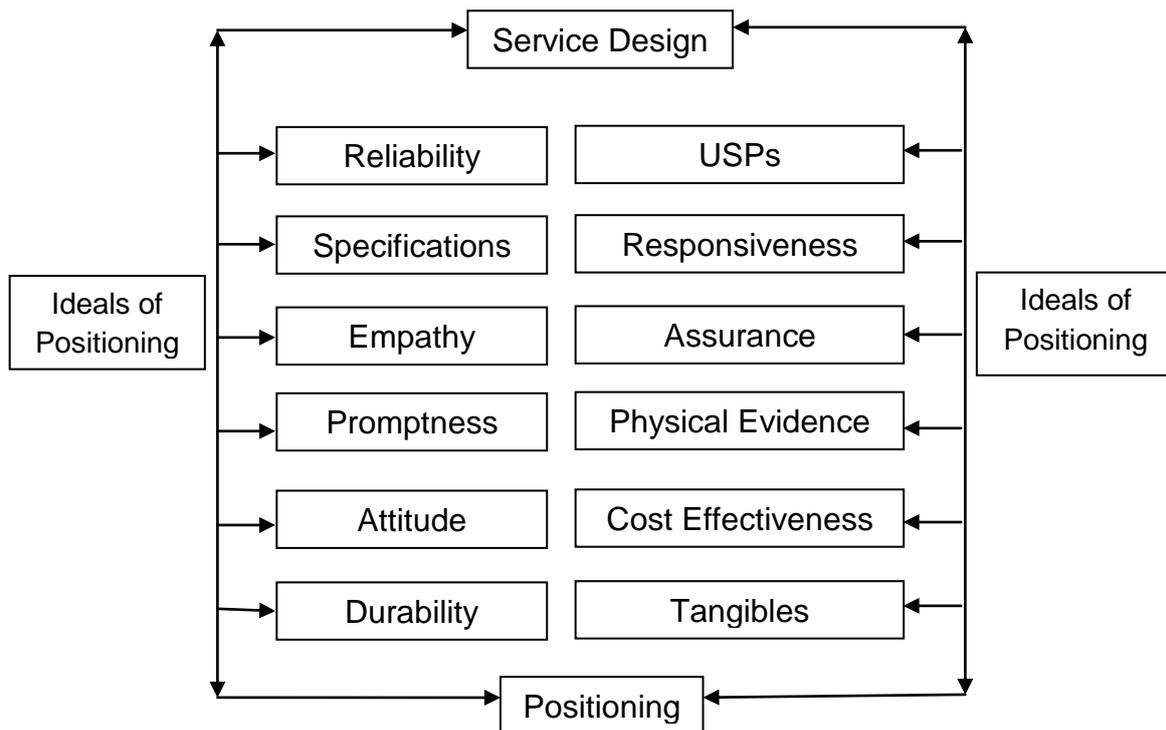
Linkages between Design and Positioning

Summary

This lesson emphasized the significance of designing and managing service processes.

Service processes are at the core of the service product and organize the customer experience. Poorly designed service processes often result in slow, uninteresting, and low–quality service delivery and are likely to create unhappy customers. Similarly bad processes make it tough for the service staff to work professionally, resulting in service failures. Service blueprinting is an effective tool to understand the service system, make representation, analyse and improve service processes, and offset failures. Furthermore, blueprinting provides vital insights for service process redesign.

Service blue printing is a particularly useful technique in the new service development process by visually depicting all the steps, players, processes, and physical evidence of the service episode and relationships. This lesson has highlighted the usefulness of service blueprints.

Service design may be defined as the activity of planning and organizing people, infrastructure, communication, and material components of a service in order to improve its quality of delivery and the interaction and relationship between service providers and customers. Service design is focused towards creating for the existing services of a company

new methods and performances of delivery that bring about a make-over in the nature of the service experience, eventually promising new benefits. The challenges and road blocks in the path of service design such as distinctive and varied demands, high customer contact, etc, are discussed in this lesson. The characteristics of service design are also delineated.

Service design requires tools and methods to develop and control new elements of the design process and in this context the approaches of service design methodology is also dealt here. The importance of New Service Development, types, and stages in NSD are elaborated in this lesson. The types of service design process and service design options with background perspectives are also discussed at length. The need for service process redesign also finds a place in this lesson. This lesson concludes with a conceptual model establishing the linkages between service design and positioning.

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Lesson 4.3 - Technology as an Enabler of Service

Learning Objectives

➢ To study the influence of technology in service industry.

➢ To elucidate on technology and service productivity.

➢ To examine the application of technology in service activities.

➢ To discuss emerging technologies in service industry.

Introduction

Technology has assumed a greater role in our lives. It is getting embedded in all sorts of services. Information and communication Technology (ICT) revolutionized the way services are provided to consumers. Doors of great opportunities are opened for improving the delivery of different services.

The customers of services are hugely benefitted due to the subscription of latest technologies by service companies. The electronic gadgets have changed the face of hospitality and other service sectors. The telecommunication devices are extensively used for the benefit of the service industry.

In this new era of innovation, technology has become an indispensable enabler of service firms' innovation. The Internet is enabling service companies to innovate in new ways, where service innovation and new business delivery models play a key role. New technologies are also developed to create ideal solutions for the service industry.

The market for services has been transformed to a great extent by new distribution and communication technologies and made a pronouncing impact on consumer attitudes. Many European and Asian countries have ushered significant technological advancement in healthcare and other service sectors.

The state of the art technology is now available or developed to provide the materials, processes, mechanisms, and equipments to deliver the service. Customized technology is the key consideration. It means that new technological applications in service must be simplified for the customers.

Selection of technology is an important decision for any service firm. It must fully support service design. Furthermore, it creates the demand and requirements for all other parts of the operating systems. Service firms are adopting technologically advanced equipments that will make their processes superior to the competitors. Owing to the advances in information based technologies, a host of new service concepts have exploded in the market place. Android phones, Tablet PCs, Wi-Fi connectivity, etc are examples of technology based service concepts that have been substituted for traditional ways of delivering similar services.

When technology is used in service episodes, customers need to be educated, i.e., capability must be developed amongst customers to learn and apply the use of technology. Technology is used in service businesses to lower costs, increase productivity, enhance the way service is delivered, personalize the service, market research, add value for the customer, differentiate the service, build goodwill for the company, and foster relationships with customers. Technological developments such as relational data bases, experts systems, image processing and Wi-Fi are but few of the technologies that offer service opportunities. Online travel portals such as Makemytrip.com, Yatra.com, Travelocity.com, Travelguru.com, etc. allow customers to select tour packages of their interests and make airline reservations. Dish TV, Five-Dimension theatres, Multiplexes, and Divix have revolutionised the entertainment sector.

Technology also revitalizes the types of new services created by service companies. Virtual experience in a simulated environment is an exciting emerging technology. This technology uses multiple sensory information and data to render, recreate, and simulate a virtual world that is explained using data.

It is a fact that customers tend to resist new and changing technology even when it leads to improvements in services. During 1980s, when Automated Teller Machines (ATMs) were introduced by the banking industry, customers did not quite appreciate the idea of putting their money or bank cards into a strange machine.

The criteria for customer acceptance of new technology are a) the technology must have an evident customer benefit, b) The technology should be easy to use, particularly in the initial stage; and c) the technology should be implemented perfectly.

The assimilation of two significant trends, viz, information technology and re- engineering of work processes are resulting in customer service breakthrough that phenomenally changes customer expectations. Re-engineering, which comprises changing the processes, approaches, and mechanisms by which work gets completed is facilitated

by technology that includes E-mailing, video conferencing, cellular phones, laptops and personal computers, GPS, GDS, etc. These information technologies augment processes such as billing, troubleshooting of customer problems, handling of customer complaints, product delivery, repair, and handling of requests.

Internet and Service Industry

Internet has taken big strides and gained huge popularity the world over. With the arrival of internet, a whole new world of information has opened up ushering in a great knowledge era. It has made a deep impact on service sectors such as healthcare, banking, education, insurance, entertainment, etc. The travel and tourism industry has also felt its effects. Internet has transformed the methods of sales and marketing of tourism attractions and resources, and reservations systems in airlines, hospitality, railways, etc.

Internet has emphasized the customer-centric dimension of the service industry by way of putting control in the hands of customers. Online travel portal is a classic case in point. Virtual sightseeing is the most simplistic form of using Internet for E-Tourism.

Technology and Service Innovation

The term technology, as commonly used, refers to the practical application of quality tools, methods, and functions. Innovative service providers are keen on using new technological developments to automate and quicken processes, reduce costs, facilitate service delivery, address customers needs, wants, and desires, offer more convenience and value–add, enhance the make-up of existing services, and launch the platform to develop new types of services.

Many types of technology are found to have implications for a broad range of services. These are the technologies of power, IT, GPS, CRS, energy, materials, and physical design. Sophisticated technology refers to ultra-modern applications derived from research and development in the physical sciences. A blend of several technologies is also found in service industries. The impact of IT with its best known elements E-mail and World Wide Web on services is very profound. Michael Porter opines that Internet is an enabling technology that can be used in almost any industry and as part of almost any strategy. Online shopping and E-Commerce via Internet has changed the buying habits of customers, but they still do require physical channels. Electronic services provide a unique opportunity for service businesses to offer new models. The appreciation of service businesses will also depend a great deal on meticulous planning and implementation.

In the modern day, innovations in service industries are heavily dependent on technological developments and inventions. From the five dimension theatre and underwater oceanarium to Spas, Electronic Money Transfers, and Centralized Reservation Systems technology profusely influenced almost all the service sectors. Similarly the service organizations such as banks, ecotels, boutique hotels, airport offices, amusement and theme parks, etc., have progressed tremendously post subscription to latest technological developments.

Electronic distribution channels are now offering great conveniences whereby transportation time can be lessened. In the context of troubleshooting, say for instance rectifying problems of a defective computer or software at distant customer locations, the act or performance of service can be done online. Even services of Medical Transcription (MT) have gained immense coinage. The advances in Internet and telecommunication allow the service operations to be physically separated from the customers. Online banking system is adopted by many banks now, wherein certain customer transactions take place over mobile phones.

Recently, service firms have taken advantage of the internet to moot new services that can be delivered through electronic channels accessed by computers.

The following innovations are highlighted:

 - ➢ Development of smart mobile/android phones
 - ➢ Video conferencing
 - ➢ Voice recognition technology
 - ➢ Creation of websites that can provide information, take orders, and offer services as a delivery channel for information-based services.
 - ➢ Memory cards and microchips
 - ➢ Global Positioning System software
 - ➢ E-commerce

Technological Aspects of Self-Service

Self-service is where customer involvement is at its peak. In this case, the customers undertake a specific activity themselves using systems and facilities provided by the service firm. Telephone and Internet–based services provide customers their own terminals to avail them.

Today's customers are relishing an array of Self-Service Technologies (SSTS) that allow them to use a service independent of direct service employee involvement. SSTs comprise of phone banking, automated hotel check-in and check-out, billing, and many internet based services. Information-based services open themselves particularly well to use of SSTs and include not only such supplementary services as making payments and receiving information but also delivery of core products in such fields as research, education, and entertainment. For instance, the use of multimedia aids have made a sweeping impact on the education sector.

Many companies have developed premium strategies to encourage customers to resort to self-service through the World Wide Web.

Technology and Service Productivity

Service industries today are increasingly viewing the problems and challenges they face very differently. They are looking at the kinds of tools- old or new, approaches, procedures, processes, skills, incentives, organizational revitalization, mechanisms, controls and audits, which may be implemented to greatly improve their productivity. It means they are becoming systems and technology oriented. Replacement of human labour with automation is one of the steps that might be taken to enhance productivity in terms of efficiency and effectiveness.

The systems approach to services management is the key way by which technology, engineering, and management science are being applied into service industries in order to raise productivity, lower the risk, increase the output, and provide utmost customer satisfaction. The systems approach paves the way for higher productivity levels. It considers new layouts, better engineering mechanisms, and synergy of efforts at each stage of the work process.

Mc Donald's fast service restaurant chain is a good example of the successful adoption of the systems approach which produces hamburgers utilizing automated procedures. Walmart, Tesco, Metro, etc, are other examples of systems approach in action. They illustrate best the merchandising efficiency in terms of its display, customer options and selection, merchandise handling, storage, movement, all at a lower cost.

Hard technology adopted for the service industries means the computers and other equipments. Examples include ATMs, automatic car servicing, etc. The soft technology on the other hand involves the systems and processes in operation – e.g. package tours, multi cuisine outlets, etc. An unique feature here is that service technologies can deliver lowest

cost outputs and maximum customisation and personalised services for customers. Speed, accuracy, and efficiency are the mainstay of the process driven by technology. There is a consensus that technology gives quality to service firms to handle larger volumes of service, to offer a vast range of services to provide quicker and more accurate services and to bring about more efficient management.

In addition, to reaching cost-effective and customer delight proposition, the contact staff of services become more proficient and able by working faster and smarter. Such employees are also empowered to be much more capable of addressing customer needs. The inexperienced employees are invigorated to perform high profile tasks quickly, increasing the value added per person. Technology compiles and disseminates information which is of course the key for effective management and marketing of many service organizations.

The nature and speed of technological progress has had a major impact on service delivery processes and practices. CRS and computer networking implies that real time information about bank accounts, seat availability in airlines, room availability in hotels, Electronic Fund Transfers at Point of Sale (EFTPOS) can all be accessed immediately to definitive benefits for service providers as well as customers or users of services. ATMs are considered to be a remarkable technological advancement in the service sector. It is a very common sight now across towns and cities. The credit card has changed the patterns of buying services. The services provided by ATMs are upgraded very often. Innovations in this regard include multi-lingual options; where the user can select a preferred language, obtain instant statements and make bill payments.

Many service firms have used technology to enhance efficiency and profitability and to improve the methods of delivering service to the customers. The effect of information technology pervades every part of the service delivery experience from concepts, strategies, and tactics to quality, cost, creation and delivery. It can restructure and revamp the service industries thoroughly changing the roles of service providers, intermediaries, and customers.

Applications of Technology by Service Companies

Technology used by service companies can be categorized into three types which are:

a. **Hard Technologies**

Hard technology systems replace machinery, tools, and other engineering devices for labour intensive performance of service episodes.

Some of the service activities influenced by hard technologies are

➢ Credit Cards

➢ Automatic car wash and hot wax process

➢ Airport X-ray surveillance equipment

➢ Automatic coin receivers at bridges, entrances, buses, etc.

➢ Billing machines in restaurants and shopping malls

b. **Soft Technologies**

Soft technologies are the fresh face of newly designed, preplanned systems for individual service provider. These systems include some modification or adaptation of technology applied, but their basic nature is the system itself, where procedures and special tools are designed to dish out great results. Soft technologies are devised to offer ideal solutions.

Some of the aspects involved are:

➢ Systems for effective division of labour and specialization to control costs, to maintain speed and efficiency, to bring about high quality, and to ensure physical evidence, proper pricing and distribution

➢ Snack bars Cafeterias, restaurants, salad bars, and mobile libraries that enable customers for self-service with pace and efficiency

➢ Tailor made package tours

➢ Chartered Accountants and Tax Consultants with accuracy and guarantees following a fully systematised service performance

c. **Hybrid Technologies**

Hybrid technologies combine hardware with carefully orchestrated systems to generate order and spread to the service process and also to bring enhanced efficiency.

The examples of hybrid technologies are:

➢ Retailing: Electronic Point of Sale (EPOS), scanning systems and Electronic Data Interchange (EDI) systems eliminate all the procedural hassles and rigid formalities.

➢ Railways: Electronic signal box for train management and automatic route setting.

- Insurance: 'Direct Line' insurance software gives quick response to customer enquiries and offer good quality service.

- Cargo: Shipping and mailing technologies.

- Airline: Baggage tracking software, Seat allocation systems, and Electronic ticketing.

- Bank: Travelers' cheques and foreign currency, Travel Insurance, Traveler's Cards

- Computerised Repairing: Rapid, low priced repair facilities for high volume services. Self-diagnosing machines and modular manufacturing have drastically changed the business of those providing service and repair. Such a repair system can figure out in advance what exactly is the nature and extent of damage.

- Courier service: Effective systems approach for weighing a parcel, printing shipping labels, calculating the cost, providing the invoice to the customer, and charging back the incurred cost to the user department. It also ensures the shipment on time.

- Postal services: Automated sorting and the use of barcodes.

- Construction: Design and revision time is reduced through the use of Computer Aided Design (CAD).

- Medical services: MRI Scan, CT Scan, Keyhole surgery, Plastic surgery, laser treatment

- Cable services – Satellite Television Optical Fibre Cables

Technological progress has tremendously impacted the 'P' of process in the Marketing Mix. The use of fibre optics has brought significant changes in the procedures, methods, and approaches.

Impacts of Technology on Service Processes

In the service delivery system the role of technology may be explained as:

a. Consideration of cost – Technology can be applied in the service industries as a replacement for the labour force with a view to reducing costs and increasing productivity.

b. Generating quality: The emergence of technology may make it easier to control and enhance the quality of a service. In this connection, it is important to note that consistency of service delivery has to be achieved. The physical gadgets and machinery have to be designed appropriately.

c. Bench-marking: Twenty four hours service outlets set an example of a higher level of service.

d. Relationship with customer: Linking computers with the clients information systems, thus integrating the clients more closely with the service episodes.

1. Technology and Employee behavior

Technological advancements lead to creating the desired employee behavior. Physical equipments may be used to improve the status and motivation of employees paving the way for optimising their efforts.

Emerging Service Technologies

Automation of core and ancillary services and new technologies such as IT has great potential for making services more cost effective and improving their quality. Introduction of an emerging technology into an established service system is a very fragile process. New technology must be followed by other changes in the total service management system. This is because the socio-cultural backdrop of both employees and customers has to be taken into account. Hence, technology must be skillfully applied to improve and promote rather than to hamper the kind of social process that catalogues good service companies doing good.

Customised services which are produced with the aid of technology include some elements of personal touch. Today, many service industries are using technology to create more relationship for service providers and their stakeholders and customers. This involves a shift from low-tech to high-tech operations in many services which is evident in such services as insurance and tourism. Many service firms have used technology for 'data mining' and creating an efficient customer database system. Service managers need to have a clear–cut idea on which elements of service have to be high-tech and which elements require personal touch. A potent marketing mix can be determined identifying and implementing the best mix of both technology and human touch.

High technology can be applied at the production and/or the delivery stage in services. Automation of service process infact requires careful planning, integration, and implementation.

Adoption of new technologies in services enable service managers to plan, implement, and evaluate results with greater accuracy and speed, and therefore improve effectiveness in integrating, measuring, and regulating service processes. Technological applications in

service delivery have to be eased for customers. They need to be ready to appreciate and receive the different modes of service delivery.

Benefits of Technological Application for Services

> ➤ Helps overcome the issue of standardisation of services
> ➤ Ensure consistency of service delivery
> ➤ Service operations are made more efficient and profitable
> ➤ Back office functions are streamlined to provide support to the automated functions
> ➤ Promotes creativity and innovation
> ➤ Aids in integration of stakeholders with their intermediaries and customers
> ➤ Transforms the way both businesses and consumers operate
> ➤ Internet is a new distribution channel
> ➤ Technology can monitor customer needs
> ➤ Technology ensures competitive service quality
> ➤ Captures customer perception of service on the spot
> ➤ Technology changes the way market research for services is conducted, analysed, and used
> ➤ Customer Information Systems is slowly replacing Marketing Information Systems
> ➤ Technology is reshaping, law, education, architecture, and financial companies
> ➤ Customer service representatives have immediate access to information
> ➤ Customers benefit through speed of processing of their claims, inquiries, and policy changes, and leave little scope for error.
> ➤ Computer technology assists in yield management of service companies like shipping.

Computer Technology in Tourism

In the field of tourism, computer technology has made entry in a grand fashion. The use of CRS and GDS are considered indispensable in tourism. Computers play a vital role in making the responsibility of providing travel services a simple affair. The main users of computers in the tourism industry are:

1. Airlines
2. Railways
3. Hotels
4. GSAs

5. Cargo

6. Travel Agents

7. Cruise Companies

8. Transport Companies

Advantages of Using Computers

1. Ticket printing

2. Financial management

3. Cargo management

4. Passenger reservations

5. Online-promotion and distribution

6. Departure and control

7. Revenue accounting

8. Fare quotations and construction

9. Accounting, budgeting, and planning

10. Personnel management

11. Yield maximization

12. Credit card verification

13. Baggage tracing

14. Wi-Fi Service

Technology as a Driving Force for Tourism Industry

The tourists' search for information is enabled by the Internet through blogs and social networking sites, such as Facebook, Twitter, Linkedin, and Orkut. Provision of tour information, expert counsel, planning, and purchasing are available at the click of a button. The tourist's online purchase is enabled by credit cards. Technology facilitates the latest choices of hospitality and transportation services.

Owing to the development of transportation technology, tourists can undertake trips with speed, comfort, utility, and reasonable price. Tourists are visiting International Space Station (ISS) and Antarctica enabled by transportation technology. In the realm of touristic experience, technology has made a signature presence. IMAX theatre, go-karting centre, para-sailing, and hang-gliding are examples where technology impacts tourism experience.

Facets of technology that promote, protect, preserve, and maintain the sustainable and responsible tourism ideals have received worldwide recognition and appreciation. Travel marts and fairs are highly influenced by the technological advancements.

Thus, technology has become integral to tourism development. Information Technology is used in tourism and hospitality to manage information and undertake operations. It comprises GDS, digital telephone networks, mass mailing, video conferencing, touch screens, electronic locking systems, multi-media solar power, wind turbines, e-commerce, etc. The application of IT in tourism increases the quality, efficiency, productivity, and flexibility with which travel and hospitality services are offered.

With the development of multi-media a host of tourism promotional tools and activities have made a significant mark in the sphere of tourism marketing. Interactive Compact Discs, Destination mapping softwares, e-brochures, etc. are very useful in promoting tourism destinations.

Virtual tourism is a neo-tourism type which is 100% technology based. Tourists are offered different experiences when they traverse through cultural monuments, palaces, museums, and mausoleums i.e., virtually created. Even though they are just reel experiences and not real experiences there are numerous takers for virtual tourism.

The Global Distribution System (GDS) provides access to a large market. The main advantages of GDS such as Amadeus, Galileo, etc., are that:

➢ A large base of services is offered to a large number of customers.
➢ It is effective in yield management.
➢ Accurate and updated information is provided at a swift pace.
➢ There are immense choices of services.

E-Tourism is basically the use of IT in tourism industry, which includes all intranet, extranet and internet applications as well as the strategic management and marketing issues related to the application of technology. Due to the accentuating role of internet in marketing, online marketing practices have gained considerable momentum. Online travel portals began as a grand idea and have revolutionised the operations and sales and marketing of global travel and tourism industry. E-Tourism now offers new opportunities for collaboratively marketing tourism destinations. There is a potential to create virtual co-operation, whereby potential tourists can browse through websites of tourism firms at a destination and develop a wholesome picture of the destination's experiences on offer. The creative linking of website enables the profiling of enquiries in a way that allows prospective

tourists to develop their own package of experiences from a visit to a destination. The search capabilities of Internet facilitate ample search options, comparison of facilities, prices, and availability involving multiple service providers. E-Tourism exposes tourists to the enormous range of destination and product options available. Furthermore, E-Tourism offers tremendous opportunities for developing strong brand image for tourism companies. Tourism destinations and players can benefit a great deal from E-Tourism by developing a coherent position in the market place, increasing their market share by taking the tourists (actual and potential) into confidence and subsequently, by ensuring delivery of high levels of tourist satisfaction. Online travel portals are changing travel procedures and tour formalities, and are evolving from the stage of only information search to purchases and exploration of tourism destinations. E-Tourism has ushered in renaissance in tourism.

Online travel portals such as Makemytrip.com, Yatra.com, Travelocity.com, Travelguru.com, etc., have established itself as strong avenues that are used by tourism departments and organizations to provide customers with well designed tour programmes. The number of tourists using online travel portals to make decision on tourism spots and availing of its features is on the rise. Its information based nature, ease of use, interactivity, and flexibility of web based interfaces are keeping online travel portals in great stead as regards tourism businesses and operations. Online travel portals are now educating and inspiring potential visitors. Online travel intermediaries is the new face of virtual travel agents who are taking over a major share of bookings, both online and offline from the traditional travel agents. Thirty percent bookings via GDS, mainly of domestic air tickets are through online travel agents (OTA). Domestic ticketing is estimated to be mostly online transactions because of the surge in e-ticketing. Online travel portals have changed the business of selling tour packages. Booking is not at all a tedious process now. By introducing facilities to search, compare, and purchase tourism offerings, a paradigm shift has taken place in tourism industry. Due to such extraordinary developments, it has now become so easy and comfortable for customers to purchase full package holidays through the Internet without contacting the agents.
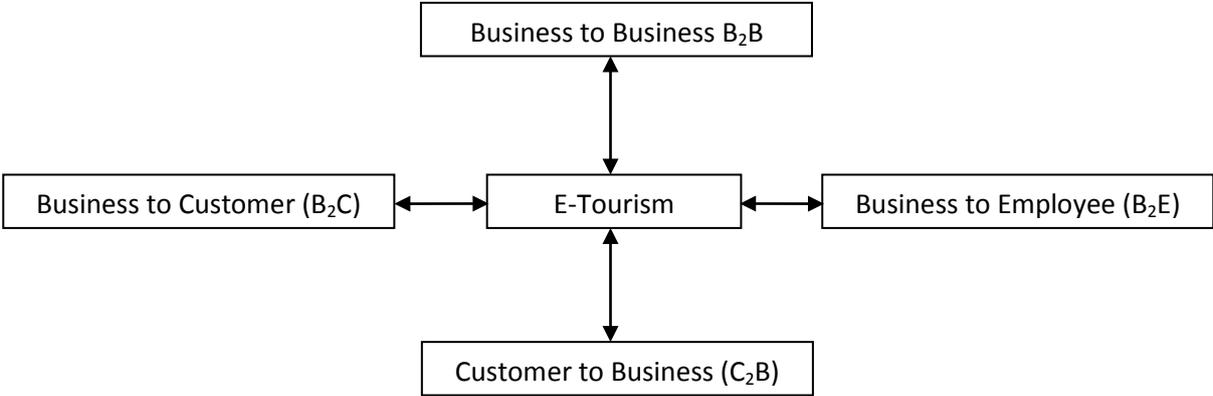
The Proposed E-Tourism Model

Advantages of ICT for Tourism Services

- ➢ Infinite avenues for tourism marketing
- ➢ Helps in building a broad image
- ➢ Information revolution
- ➢ Facilitates smooth operations of booking transportation and accommodation
- ➢ Provides quality experience to tourists by way of effective destination co-ordination and management.
- ➢ Event management and development.
- ➢ Attractions development and management
- ➢ Better services can be offered with the application of technology. For instance, CCTV cameras for tracking service episodes.

Summary

Technology plays a very significant role in services industries. It can contribute to enhancing tourism experiences. Of all technological advancements including transportation technology, hotel technology, etc, it is the Information and Communication Technology (ICT) that plays a pivotal role in tourism owing to its information intensive nature. Technology finds application in all areas of service.

It helps in maintaining and restoring service quality. This lesson deals with the impacts of technology on services industries. There are several avenues of technology ranging from. IT and android phones to Wi-Fi and smart cards that are used by service firms to provide maximum service efficiency.

This lesson also discusses how technology revitalises new services created by service companies. Further, the criteria for customer acceptance of new technology are also enumerated. The way internet has revolutionised services is briefly explained in this lesson. It is highlighted that technology is a driving force for service innovation.

Yet another feature of this lesson is the considerations of technology in self- service. The kinds of tools, procedures, approaches, and mechanisms of technology which may be ideally, judiciously, and competently implemented are described here. The application of hard technologies, soft technologies, and hybrid technologies by service companies and its various implications and imperatives are dealt with.

The Impact of technology on service processes along with emerging service technologies find a place of due importance in this lesson. The benefits of technology for services are also illustrated. The reasons for technology being perceived as a driving force for tourism industry is discussed with new perspectives. In this context, a model of E-Tourism is proposed. To conclude the lesson, the advantages of ICT for tourism services are listed out.

Self Assessment Questions

1. Tourism is one of the prominent driving forces of the 21st century". Discuss the statement.
2. Explain why tourism is considered to be a multi–disciplinary subject?
3. Describe the nature and components of tourism.
4. Outline the major types of tourism.
5. What do you mean by motivations for tourism?
6. Discuss the emerging trends in tourism.
7. Differentiate between inbound and outbound tourists.
8. Explain the advantages of tourism being conferred industry status.
9. Discuss the characteristics of tourism as part and parcel of the service industry.
10. Elucidate on the consideration of services marketing for tourism.
11. Illustrate the service sector linkages of tourism.
12. Define service design and explain its importance.
13. State the major factors in service design.
14. Outline the objectives of service design.
15. What are the characteristics of service design?
16. Explain the major challenges involved in service design.
17. Describe the significance of service design methodology.
18. What is the role of blueprinting in designing, managing, and redesigning service delivery processes?
19. Explain the stages in New Services Development.
20. Elucidate on the service design process.
21. Critically examine the service design options.
22. What is the importance of service process redesign?
23. Discuss the linkages between service design and positioning.

24. Explain the role of technology in improving service productivity.

25. Describe how technology has become an indispensable enabler of service innovation.

26. Explain the criteria for customer acceptance of new technology.

27. State how Internet has made a deep impact on service sectors.

28. What are the technological aspects of self service?

29. Discuss the application of technology by service companies.

30. What are the impacts of technology on service processes?

31. Describe the emerging service technologies.

32. Outline the benefits of technology use for services.

33. Account for Technology as a driving force for Tourism Industry.

34. Discuss the advantages of ICT for tourism services.

35. What is service delivery?

36. Explain the framework of service delivery.

37. Elucidate on the options for service delivery.

38. Explain the aspects involved in the use of channels of service delivery.

39. Discuss the role of intermediaries in service delivery.

40. Describe the linkage between service delivery and HRM.

CASE STUDY

Information and Communication Technology (ICT) in Tourism

The contemporary information revolution has made tourism a highly information-intensive industry as ICT has a powerful impact on tourism business. ICT has provided new tools and enabled new distribution channels such as GDS, thus creating a new business environment. ICT tools and procedures have facilitated business transactions in tourism industry by networking with trade partners, distribution of services, new service development, and disseminating information to tourists across the globe. Furthermore, tourists are also using online portals to obtain information and plan their tour.

ICT pervades almost all aspects of tourism business. Right from exploration and development of tourism destinations to the use of Geospatial information Technologies, in the recent years ICT is applied in various forms in tourism industry. The role of ICT tools in the industry for marketing, operations, and management of tourism is widely acknowledged. Tourism marketing techniques can be made more innovative by using ICT tools.

Technological progress in the recent decades has made tourism enterprises across the world more innovative than ever before.

The main innovations which have re-defined the facets of world tourism industry are:

1. Computerized Reservation system   2. Global Distribution System

3. The Internet   4. Global Positioning System

There is a need for a well structured information system or intelligent system technologies in tourism industry to facilitate the access of tourist information. The present status of ICT system has certain limitations.

For example, accessing information through Internet and World Wide Web is an intelligent means of gathering information. But the information is highly fragmented. There are ample scope for developing search engines for tourism.

Wireless is likely to be the best 'in-thing' in the history of technology. Wi-Fi connectivity is now opted by many hospitality ventures. Its application in tourism industry is likely to increase in future. Smart mobile services shall continue to be an important channel of information and distribution of tourism services for both service providers and customers.

However, it is found that developing countries are unable to adopt ICT despite the competitive advantages of such applications. It is a fact that rural tourism can be furthered a great deal by subscribing to ICT applications.

It is essential to build a user friendly model for rural tourism, keeping in mind the ICT tools, cultural policy, state and region. Moreover, the use of ICT in tourism can have significant impacts on the management and development of heritage sites.

ICT can open up new prospects for cultural tourism policies through the convergence of resources' preservation and development. ICT tools are providing new means for analysing the information for tourism industry.

Questions

Discuss the ICT tools which can be used for tourism development.

1. Examine the positive impacts of ICT application in tourism.
2. Elucidate on the challenges of ICT when it is used for tourism promotion.

UNIT – V

Unit Structure

Learning Objectives

- To understand the concept of service delivery.
- To learn the factors which contribute to delivery of high quality service.
- To examine the role of automation in service quality delivery.
- To know the options for service delivery.
- To evaluate the role of intermediaries in service delivery.

Lesson 5.1 - Service Delivery

Introduction

"Service delivery is the right way of delivering the right service at the right place in the right time."

Service firms are designing world class service delivery systems to create captivating service experiences for their customers. By ensuring extraordinary delivery systems, service firms intend to make a competitive advantage. Decisions on where, when, and how to deliver services have a profound impact on the nature of customers' service experiences as they determine the types of service encounters. Several factors have been identified which

contribute to shaping distribution and delivery strategies. The service organizations have taken advantage of ICT to develop new services that can be delivered through e-channels which are remarkably customised. The customer's service experience is an outcome of both service performance and delivery characteristics.

The service delivery framework is a set of principles, policies, standards, and constraints used to design, develop and implement the services by a service provider with a view to offering genuine and consistent service experience to a specific market in a specific business context. Service delivery is people centric. It is all about people first; processes and mechanisms later. Another important feature of service delivery is that it lays emphasis on delivering the promises that are made; and for attaining that, upgrading the capabilities of the service firm. The capability, vision, and mission of the service personnel are also significant in this regard. When the workforce is up to the tasks at hand, service delivery becomes utmost effective. In the service delivery systems, the service staff will engage with the customer and make them feel privileged.

The customer is a crucial link of the service delivery chain as their appreciation of what is being delivered acts as a catalyst in elevating the system. Without a satisfied customer, the service delivery business will not be efficient.

For service delivery to hit the bull's eye, right infrastructure has to be in place. Service delivery is all about being able to measure and improve service offerings by way of key performance indicators or service level agreements. Every effort in service delivery must be fine- tuned to maintain a degree of excellence.

Researchers' world over are of the view that quality in service delivery is an elusive and abstract concept that is tough to define and evaluate. Traditional measures of productivity like Gross Domestic Product (GDP) do not reflect the increases in service quality delivered. Quality enhancement and adherence to accepted norms of quality are at the crux of the modern concept of marketing of services.

The focus of the present day marketers has switched over form a one-time sale to making repeated sales to the same customer by developing loyalty programs or establishing relationship with him. Increased attention is being given to medium and long –term perspectives rather than just the short-term perspective such as use of tactics. Service enterprises propose to offer lifetime value for the customer.

This is because loyal customers make repeated purchases that represent a cumulative value which is quite high as compared to a single transaction. Moreover, it costs much

more to add a new customer than to retain an old customer. In this connection, customer retention becomes very important as it can substantially reduce marketing costs.

For customer retention, the key is customer satisfaction. Customer satisfaction can be largely attributed to the service quality. Thus, it is a conclusive fact that delivery of high quality service is crucial to the high service value perception. For service companies with customer relationship and retention as the main marketing goal, service delivery is definitely the important differentiator.

Although Service firms are much more likely than manufacturing companies to control their own service delivery systems, there is an augmented role of intermediaries to deliver either the core services as in the case of franchisees, or ancillary services such as foreign exchange units. Service delivery is of immense importance to the customer's overall perception of service quality.

Services that require customers to visit service providers have more opportunities to control the delivery experiences. However, there are many services that transact without the customer and the service provider meeting each other. For effective distribution of service, it is important to choose the channel of the service delivery. Compared to goods, there is a limited choice of channels for services. As regards professional services, it is ideal to use direct selling to the customers.

Service organizations need to develop people/ efficient work force/ assets to deliver quality service through adequate training, empowering the employees to be responsive to the needs of the customers, and promoting team work to support the service delivery process.

What is Service Delivery?

Service delivery implies the way in which service is provided to the customer. It is the final dimension of the service product. The service delivery system accounts for the interaction and involvement of the customer with the service personnel and service infrastructure. Service delivery comprises training of employees, organising tools and amenities, and designing the flow of work.

It is a meticulously designed blueprint that illustrates how the services are rendered to the customers. The physical environment and interactions with contact personnel throughout the experience affect customer perceptions of the quality of service delivered.

Options for Service Delivery

The foundation of service delivery rests on three key questions. Where?, When?, and How?. "Where" refers to the distribution channels or places. Customers can receive the core product, one or more value–additions / ancillary services or a total package delivered by the service firm at/through the channels of distribution or the places. Delivery takes place through physical and electronic channels.

"When?" relates to aspects on the scheduling of service delivery. Customer desires for better facilities and conveniences are prompting many firms to extend their hours and days of service, with the optimum being offered by 24x7 service facilities throughout the year.

"How?" focuses on channels, mechanisms, and approaches for delivering the core and supplementary service elements to the customers. Delivery channels like E-shopping websites are responding to customers' need for flexibility.

The service delivery options are:

1. *Customer visits service organization.*
   E.g. - multiplex, saloon, restaurant

2. *Service organisation moves to customers.*
   E.g. - mobile library, wall paper service, home delivery.

3. *Electronic communications between customer and service provider.*
   E.g. - credit card transaction, Dish TV

In the first case, the convenience of the locations of service firms, physical evidence, and operational schedules become important as the customer physically goes there. For some types of services, the service staff visits the customer, especially when they have to carry equipments and expertise to the customer's place because the need is location specific. This is unavoidable whenever the object of the service is an immovable physical item, such as a garden that requires to be mowed.

Electronic communications ensure that a service firm deals with a customer through arms – length transactions. This may mean that the customer never get a chance to observe the service facilities and never have interface with the service staff. Therefore, the volume of service encounter will be limited.

The key aspects involved in the use of various channels for service delivery are:

1. In consonance with the risk involved with a service delivery, customers will want more reliance on personal channels.

2. Customers with greater level of confidence and knowledge about a service and/or the channel are more likely to use self–service or channels that do not interact with the service staff.

3. Customers looking for convenience are more likely to use impersonal and self–service channels. Customers with social interests are inclined to use personal channels.

Service Delivery at the Right Place at the Right Time

The place where service is delivered and when it is available is important for service personnel. The competitive edge of services, the nature of service operation, and customer likes and dislikes surface by analysing them. The distribution strategies employed for some of the ancillary service aspects may also vary from those used to deliver the core product. For instance, while reserving seats in a cinema hall, the customer would prefer to book the seats via internet to ensure the facility smoothly upon reaching.

The location of a service facility where customers frequently visit plays a role of paramount importance as the inception is related to access of labour and their availability, cost considerations, and productivity. The emphasis here is on customer convenience and preference. Common services which are not distinctly identified such as fast food need to be located closer to the customers. However, in the case of speciality services, customers do not mind travelling long distance to avail them.

Service Delivery and Technology

Technological advancements in the recent decades have drastically changed the way in which services are produced and delivered. Progress in computer Science and Information Technology (IT) continue to impact service delivery through innovation. Service companies prefer electronic channels to remain competitive in the market place.

The entrepreneurs in service businesses have taken the benefit of internet revolution to innovate and develop new services that can be delivered through electronic channels which are accessed by customers in their desktops and laptops. The tablet PC's and smart phones enable speed and convenient delivery of service information. Video conferencing facilitates demonstration of products and the physical aspects of service. Websites aid to provide

information, take orders, and sometimes serve as a delivery channel for information-based services. Cyber cash avoids the risk of physically carrying the cash and also ensures access to online service bookings and delivery.

Websites are becoming highly sophisticated and more user friendly. They open new vistas for customers, presenting varied and plenty of options. Some even provide the chance for 'live' interaction with cordial service staff. Search tools enhance the web functions. Exciting developments are taking place that link websites, CRM systems, and mobile phones. Integration of mobiles into the service delivery infrastructure will lead to

(a) Increased accessibility,

(b) Delivering appropriate information at the right time, and

(c) Updating and maintaining real–time information.

Service organisations need to take advantage of the current trends in technology and its benefits. Access to information has become cheaper and easier with the adoption of ICT. It is bound to develop new service distribution strategies.

The Role of Intermediaries in Service Delivery

Service industries in the sphere of tourism and hospitality depend a great deal on intermediaries such as travel agents and tour operators in spite of the mushrooming of online travel portals and BPO's. The principals of travel and tourism services like airlines and resorts use the services of travel agents and General Sales Agents (GSA's) as they are deemed to be cost–effective. In certain cases, specific service elements especially in the realm of supplementary services are offered to customers through one or more intermediaries. Even delivery of the core service can be enabled through an intermediary. Franchising is in vogue now to expand delivery of an effective service concept. It is a dynamic strategy for renowned service firms because franchisees are highly committed to ensure customer satisfaction and superior quality service functions. According to the franchise arrangement the franchisor awards an investor who is willing to invest his time and equity in managing an already established service concept. The franchisor also provides training to the franchisee on how to operate and market the business, sells necessary supplies, and boosts the promotional activities. A disadvantage of franchising is that the franchisor tends to lose control over the delivery system and thereby fails to evaluate how customers experience the service. The Franchisor cannot ensure that the intermediary is focusing on effective quality control. Franchisors usually exert control over service performance by defining service standards, scripts, procedures, approaches, and physical presentation. Their domain consists of service scape, employee performance, and service blueprints.

Benefits for the Franchiser

- ➢ Wider distribution
- ➢ Larger Market share
- ➢ Minimising investment
- ➢ Sharing financial risks
- ➢ Reduce complexity of operational and HR aspects
- ➢ Maintaining consistency in service delivery standards
- ➢ Access to local markets and a thorough know-how

Challenges for the Franchiser

- ➢ Stability of franchisees
- ➢ Difficulty in motivating franchisees
- ➢ Disputes with franchises with respect to renewal, maintaining standards, contract issues, etc.
- ➢ Dilution of franchiser's name owing to inconsistent quality of service delivery
- ➢ Dominant role of intermediaries

Benefits for Franchisee

- ➢ A good base from an established brand
- ➢ Brand campaign with case and reputation
- ➢ Minimizing the risks involved

Challenges for Franchisee

- ➢ Fluctuating profits and turnover
- ➢ Mushrooming of similar Franchisee outlets
- ➢ Susceptibility to failure
- ➢ Unfair cancellations
- ➢ Lack of control
- ➢ Rigid contracts
- ➢ High franchisee fee
- ➢ Unrealistic expectations and demands

Benefits of Service Delivery through Agents

- Low selling and distribution costs
- Accumulation of unique skills and knowledge
- Broad representation
- Understanding of local markets
- Options for customers

Challenges of Service Delivery through agents

- Lack of control over pricing and other perspectives of marketing
- Representation of multiple suppliers

Benefits of Service Distribution through E - Channels

- Ensuring effective quality control
- Cost effectiveness
- Convenience of customers
- Wide distribution of services
- Immense customer choice

Challenges of Service Distribution through E - Channels

- Lack of control of Technological environment
- Less chances of customization
- Customer participation and user – friendly system
- Security issues

Strategies for Service Delivery through Intermediaries

Service providers manage their service intermediaries to improve service delivery, strengthen their image and increase profits and turn over. Contractual, joint venture, and partnerships are the variety of choices available to them. The three strategies for the management of intermediaries are

1. **Control strategies** – This refers to creating standards for enhancing service performance. Results are reviewed constantly and compensation or rewards are offered to best performing intermediaries.

2. **Empowerment strategies** – This involves giving greater flexibility to intermediaries. Intermediaries are supported with ample information and infrastructure to do a good job.

3. **Investments in trainings intermediaries**- This is undertaken to improve the skills and knowledge of intermediaries.

Service Delivery and HRM

Human Resource Management strategies can help service organizations to move forward. This is really apt when the service employees are willing and able to perform along the three common dimensions of their profession: delivering service excellence/customer delight, productivity, and sales turnover. Team building is the key to offer high quality service delivery. Right amount of empowerment of service staff results in their pro-active participation and involvement.

For this, especially the frontline staff has to be empowered to give their best shot. Hiring the right and able people is part of the HR policies of service companies. They need to be adequately trained and sufficiently motivated. Successful HR strategies also involve effective use of service delivery teams as well as energising frontline staff with rewards, perks, and incentives, satisfying job content, recognition, and feedback. The staff must be treated as assets of the service companies with due encouragement for accomplishing their goals. The HR strategies must pave the way for the service staff to become self-confident to use their initiative in delivering service excellence.

Apart from striving to hire, train, and develop employees to deliver quality service, service companies must also focus on retaining the productive and professional employees. Such employees must become part of the company's vision. Every employee must be made to feel important in their respective organisation. Performance Appraisal is a useful tool to evaluate the work of the employees. It also helps to develop and motivate them.

The development of key skills and competencies for all employees' functions is vital to the cross–functional dimensions of internal management performance and service delivery. The competencies of courteousness, cultured behavior, communication, and knowledge are very important for the service staff. The frontline staff, whose involvement with customers is more, needs to contribute to all aspects of service delivery. It means, they need to possess relevant know–how and ability to analyse and proactively communicate to the customers.

In certain cases, the staff is the service. As in most personal services, such as physical training, hair cutting, child care, etc., the contact staff provides the whole gamut of service.

Thus, the service firm's investment in nurturing and grooming them can enhance the whole service delivery process. The contact employees represent the organisational attributes and image. They make-up the identifiable factor for customer satisfaction and so perform the functions of a marketer. There is every reason to account that satisfied employees make for satisfied customers and satisfied customers can in turn instill confidence in the employees.

Dependability and reliability which means delivering the service as promised, is often completely under the control of the contact employees. Employees are crucial for making sure that all the service delivery systems are working effectively. Their judgement and contingency planning can result in service recovery too.

The mindset of service employees in taking responsibility and attempting to deliver the best; stands in good stead for the service company in the long run. Service personnel need to communicate their credibility and inspire trust and confidence of the customers. The contact staff who pay attention to the customers, listen, adapt, and are flexible in delivering what customers need are truly outstanding human assets for the service organisation. Equally important are the tangible attributes such as well-pressed uniform, physical appearance, etc.

Service firms must ensure that the employees are effectively trained for enhancing technical and interactive skills. To be efficiently responsive to customer needs, contact employees should be empowered to consider customer requests and take prompt action. It is a fact that customer satisfaction level will escalate when employees work as teams. They will be able to maintain enthusiasm and deliver quality service. By promoting teamwork, a service firm can improve the staff's abilities to deliver excellent service and enhance its own approaches to be competitive service providers.

Service Delivery Channels

A crucial decision with respect to the distribution of service is the selection of the channel of service delivery. As compared to manufacturing goods and other sectors, there are limited choices of channels in the case of services. While some service firms opt for direct selling to the customers, few others choose to sell them through intermediaries.

Service Delivery Channels
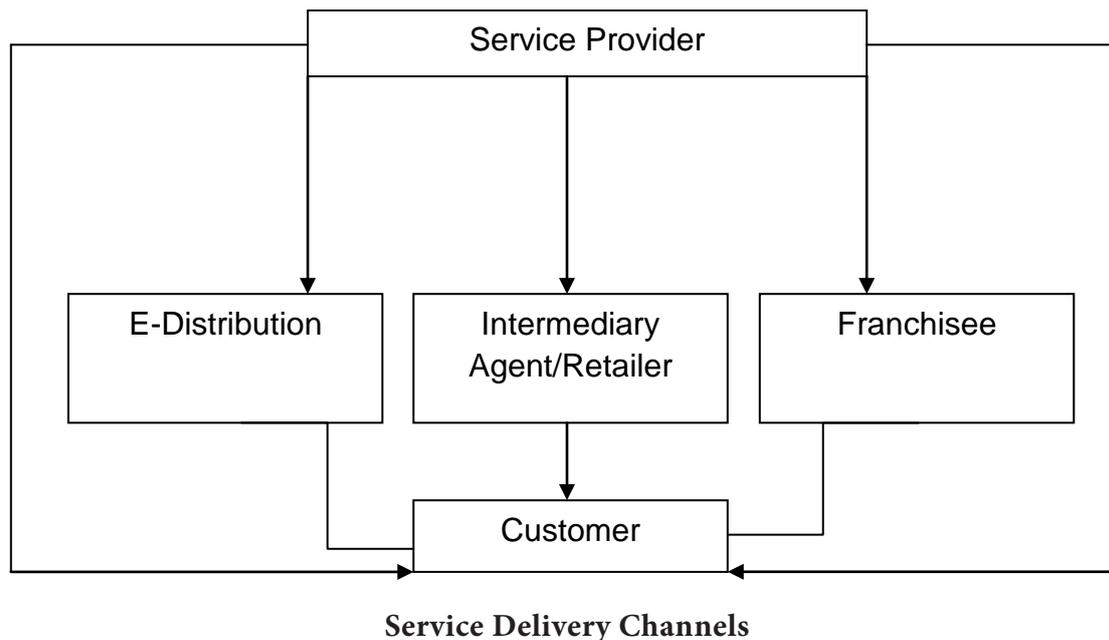
Customer Involvement in Service Delivery

According to Zeithaml and Bitner, three roles are played by the customer in the service delivery system.

1. *Customer as co-producer* – The extent of customer involvement in the service production process, at times, is so intense that they are considered as 'partial employees' or 'co-producers' of the service firm. The customers devote their time, energy, and know-how to the enhancement of service production and delivery. Their feedback and responsive attitude are very significant to the firm's development. It can affect the service firm's productivity both in terms of quantity and quality. The pro-active participation and sharing of ideas and information enable the service firm to be effective in delivering quality service to more number of customers. Keeping in view the above, many service firms have designed their delivery system to maximise the contribution of customers to the service development process. Rise in labour costs and stiff competition in service markets are other reasons for the firms' to accentuate involvement of customers.

A contrasting view is that the influence of customers can hamper the service delivery system. The efficiency of service operation is more when there is no direct contact between the customer and the service provider, as per the view. ATM facility is a case in point.

2. *Customers as contributors to service quality, value and satisfaction*- Customers show great concern towards the fulfillment of their needs by the service firms. Their expectations on service quality are always at a higher pedestal. Customers

also seek more benefits and value-adds. Effective customer participation is expected to increase the chances that their needs and desires are met. When the customers perform their role well, they are fully contented at the end of service delivery. Thus, the customers can directly contribute to the delivery of quality service and raise their satisfaction level. Customer's feedback will make the service delivery process more productive.

3. ***Customers as competitors:*** After donning the role as co-producers, the customers get acquainted with the service so well that they may not need the service provider. The customers tend to produce the service by themselves. E.g. - lawn mowing, car repair, etc.

Thus, there is a need for a clear-cut understanding of the importance of customer in service delivery by determining and recognising their roles. Subsequently, service firms must develop suitable strategies to improve customer involvement. These strategies include among others defining the role of customers, educating the customers to perform their roles effectively, and appreciating them for their contributions. The whole idea of customer involvement/ relationship strategy is to increase service productivity and ensure customer satisfaction.

Perspectives of Customer Involvement in Service Delivery

For effective service delivery, active involvement of customers is required. The employees and customers interact to produce the desired service outcome. Customers are indispensable elements of the service production process. The significant factors related to customers in service delivery are:

a. Comprehension of their roles
b. Customers are unwilling or unable to do their part
c. Customers are not lauded for performance
d. Interruption caused by other customers
e. Non – conducive market segment

Strategies for Improving Customer Involvement

Service delivery processes are strategic decisions that can impact the conduct of service businesses. It also impact bench marking against competitors, service quality, and customer satisfaction. The strategies for improving customer involvement in the service delivery process comprise:

1. *Defining Customer Roles*

The service organization must first determine the nature of participation it wants from customers. Level of customer participation also has to be ascertained.

Some services warrant just the presence of customers (e.g. train travel) while some demands information sharing (e.g. tax filing), and few others require customer to co-produce the service outcome (e.g. gym training). Once the nature and level of participation is clear, the firm can define more particularly what the customer role entails.

2. *Self Service*

In certain cases, the service firm may decide to augment the level of customer involvement in the service delivery process through dynamic participation.

In such service systems, the customer tends to be a productive resource, performing the roles of employees or others. It is a method of "helping themselves". The outcome may be enhanced productivity for the organization, increased value, quality, and contentment for the customer.

3. *Serving Others*

There are services where in the customer may be required to extend a helping hand to those new customers or others experiencing the service. It is a method of orienting first time customers and making them feel welcome. Customers are playing productive roles in this context resulting in customer satisfaction and retention.

4. *Promotion of Service Firm*

In some cases the customer may act as a sales or promotional agent. This is applicable in case of customers relying heavily on word of mouth endorsements. Recommendation from an actual user of a service has its own value.

5. *Educating and Complementing Customers*

Service companies may dish out rewards and incentives to frequent / loyal customers or customers whose performance impacted the service delivery process positively.

6. *Educating, Motivating and Training Customers*

Customers need to be properly educated so that they can carry out their roles perfectly. By way of awareness campaigns the abilities and know-how of customers can be developed. Some service firms offer customer orientation programs for customers to understand their roles.

7. *Doing away with Negative Outcomes*

Lack of appropriate customer participation can impact service delivery. When the customers are not aware of the service system or the delivery process, their involvement dampens the service outcomes. It may negatively affect productivity and quality. Another concern is the inability or unwillingness from the part of the customers to perform their roles effectively. Customers who don't have the required knowledge or sufficient motivation also contribute to negative outcomes.

8. *Effective Management of Customer Mix*

Service delivery includes consultations and interactions between customers who simultaneously experience the services. Thus a key strategy is the effective management of the customer mix. This holds water especially when multiple and conflicting segments have to be managed. Implementing certain 'codes of conduct' for customers is also part of the strategy.
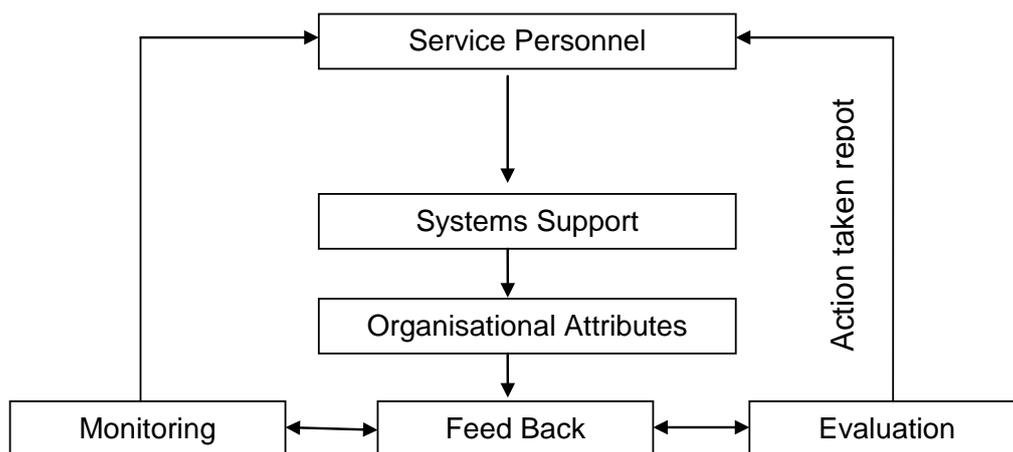
Service Delivery Chart

Automation in Quality Service Delivery

Owing to heterogeneity, changes in customers' buying process, and intangible nature of services, good communication with the customers may be a difficult proposition.

In this backdrop, automation can play a lead role in delivering high-quality services. *The advantages of automation are:*

➢ The functions of service personnel is greatly reduced or even totally eliminated. It also reduces service delivery variation. In banks, computerization has made passbook entries a simple process and the role of the person maintaining the ledger is greatly reduced.

➢ Automation ensures consistency in service delivery.

➢ Through automation a prescribed set of functions only will be available on the menu. Therefore, the customer cannot ask an impossible service requirement.

➢ Automation brings standardization of service delivery. The adequate level of service expectation is met quite easily. Reliability in service delivery is an important facet of quality.

➢ The economics of automated delivery is quite rational and reasonable. It can minimize the operating cost to the service provider.

➢ Automation can generate data about various customer transactions. It speaks a lot about the interests of customers, their behavior, patterns of purchase etc.

These information can be processed to make customized offering for mutual benefits.

Organizational Standards of Service Delivery

Usually, in the service industry, companies themselves set standards for service delivery. They define the parameters to achieve the goals. The standards of service delivery are in tune with the demand of the market. Setting standards become a complex exercise when the service provider is dealing with a large volume of customers. Standards have to be set for employees also which enable the service provider in self – evaluation and motivation of employees.

The gap between customer expectation and delivery perception occurs when the service personnel do not attempt to know customers preferences and likings. Therefore, market research plays a key role in determining the organizational standards of service delivery. The expectation levels of customers know no bounds. Moreover when the customers compare a company's offerings with that of the competitor, the service expectation also experiences change.

The implementation for service delivery is preoccupied with certain problems. The service personnel should have an eye for detail in the service delivery process. Management of service firms need to make the staff ready for every interaction with the customer. Customer perspectives are based on generally recognised good service expectations, that the finest factors will be present in an impeccable fashion during service delivery.

When the service offering does not fulfill what the customer expected or did not rise up to the promises in the campaign, they will be dissatisfied and tend to complain. Customers immediately sense the lack of good service, or service that falls below what they expected, more than they notice satisfactory service. Moreover, in many competitive situations customers like to experience premium services than they have come to receive.

In this context the service deal should be according to the needs, habits, desires, expectations, and value for money of customers for any specific service situation.

An ideal service company needs to find a way to keep its customers happy. It can achieve this by listening to and serving customers by handling the service delivery with great care. If customer is not right in certain service encounters in terms of what they want, the onus is on the service firms to choose the best that fit the customer. Thus delivering an appropriate service package to different groups of customers and managing both the core and ancillary services is vitally important for service firms.

Understanding the total customer experience in terms of pre – actual – past service experiences can help service managers' plan and implement all aspects of service delivery in a systematic manner. The purchase experience comprises of every activity during the transaction or use of a service. The dimensions of service during purchase delivery will vary according to a particular situation. It is likely that some of these will include the availability of product, staff, information and device, physical infrastructure, choice and range of products, accessibility, special offers, value for money, and complaint handling. Pre-purchase experience relates to all the aspects that made the customer take decision in favour of a service firm. This may include the exposure to any advertising or promotional activity.

Post-experience concerns all post – purchase motivations and service encounters to which the customer may be exposed. Service managers need to look at all these stages of customer's experience in designing and managing service delivery. At each stage the direction of marketing efforts and planning will be different. Also, service product dimensions may be defined and integrated to make a total package. Implementation of effective service delivery demands lucid decision – making and allocation of service responsibilities.

The design and implementation of service delivery must bring out the strengths and weaknesses of the service firm in the context of the competitive environment in which it functions. If key aspects of the service package are delivered at the right time of the service process, it will ensure that customers receive a complete service delivery.

Customer Driven Standards of Service Delivery

It is important for the service companies to set standards to meet the expectations of customers. The process of establishing standards involves a study of existing and potential customers about their expectations. Customers are provided with options for the methods of service delivery using either information technology or personal delivery. Based on the customer driven standards of service delivery, service firms upgrade their facilities, increase their human assets, etc. This is taking into account the willingness and ability of the customers to pay more. Evaluation and assessment of customer expectations and perceptions would enable the service provider with a good opportunity for bench marking and placing quality standards.

Quality Standards in Service Delivery

Quality standards in service delivery may be of two types, i.e. hard type and soft type. When the customers have a 'hard' standard for service delivery there is no room for flexibility or consideration, for instance, the delivery timings- as the delay in service firms such as restaurants, fast food outlets, etc can upset the customers.

When the customer expectation is either flexible or unspecific, it can be construed as 'soft' standard for service delivery. For example, the telephone department, which has not set any time for offering line connection.

Customers tend to be highly dissatisfied when the standards are hard. Conversely, the satisfaction level touches the peak when the service delivery meets hard standards.

Failures in Service Delivery System

Service delivery system failures are those which affect the core service offerings of the organizations. For example, transport buses that do not start / arrive on time, unclean restaurants, etc. Service delivery system failure is concerned with three types of failures which are

(a) Absence of service,

(b) Slow pace of service, and

(c) Other core service failures.

Absence of service refers to services which are usually available or supposed to be available but are lacking or absent. Slow pace of service refers to undue delay in delivering the service, as customers' perceive by incompetent employees. The third type, i.e., other core service failures encompasses services provided by service industries such as health care, hospitality, tourism, insurance, banking, entertainment, retailing, and so on. The services management issues faced by each one is very distinct.

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│ Service Delivery│
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| Physical Facilities | Choice & Range of Services | Service Information | Access to Personnel | Staff Interaction with Customers | Customer Behavior/ Response to services |
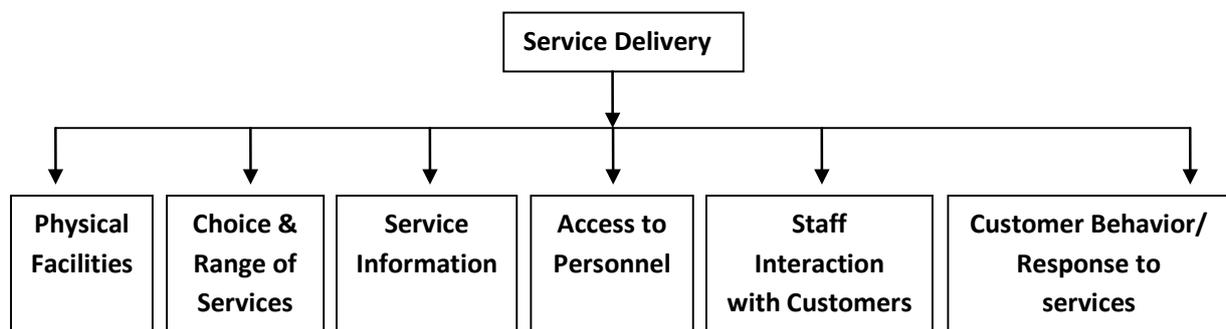
Dimensions of Service Delivery

Service Delivery in Tourism

Tourism is a people – centric industry. The elements and features that make up the tourism experience are very wide and will vary from customer to customer. The tangible and intangible characteristics of tourism services make it very distinct. As the physical facilities precede psychological aspects of service delivery, the physical infrastructure and superstructure have to be ready before attracting tourists to a destination. The tourism organisation more or less deals with intangible aspects of the service delivery. Staff coaching and mentoring for the tourism sector to offer competent and professional service have become extremely significant. The wide choice and range of intangible services are to be provided in a flexible way. As tourism targets a larger, market, there is an innate need to deliver a wide range of service products that satisfy the needs of different segments within the mass market in terms of price options and product variability.

Summary

Human touch and interaction are very important factors for effective service delivery. Automation has also impacted service delivery in manifold ways. Information Technology has changed the face of service delivery. However the use of technological

developments in service delivery needs to be promoted and made simple for customers. In short, customers should be ready to accept the different modes of service delivery. Service firms benefit from the use of technology by addressing the issues of standardisation and consistency of service delivery. Customers require time to get adjusted to a new service delivery mechanism. Service firms offer literature, training and awareness programmes to educate the customers.

It is true that there is no replacement for the deft touch of service personnel. Human assets and technology must complement and interact with each other to offer the best service delivery mechanism. Because many services are rendered by people in real time, the productivity is heavily dependent on human resource strategies. It is essential to match what the customer need with the capacity of service personnel to deliver. The challenge of managing customers in the process of service delivery is unique to service companies. Service managers are concerned with the issue of customer participation in service delivery. They develop strategies to enhance customer participation.

This lesson outlines the options for service delivery and explains the key aspects involved in the use of various channels for service delivery. The productivity of service delivery is based on the considerations of 'right place at the right time'.

Various service delivery channels are discussed and illustrated in this lesson. A figure of service delivery chart is also given. The types of quality standards such as hard type and soft type are explained at length. Furthermore, the reasons for failures in service delivery system ate also deliberated. The factors that necessitate service delivery in tourism are discussed in this lesson.

The role of intermediaries, customers, and service employees in service delivery is elaborated here. Also featured in this lesson are strategies for service delivery through intermediaries and strategies for enhancing customer involvement.

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Lesson 5.2 - Service Quality Gaps – Types and Causes

Learning Objectives

- ➢ To deal with the perspectives of service quality.
- ➢ To understand the integrated gaps model of service quality.
- ➢ To explain the types and causes of service quality gaps.
- ➢ To know the factors influencing customer satisfaction.
- ➢ To study the strategies applied to reduce service quality gaps.

Introduction

Service quality is an effective outcome formed by long-term, overall judgment of performance. There is a strong connection between service quality and customer satisfaction. While some believe that service quality leads to customer satisfaction, others believe that customer satisfaction leads to evaluating and then developing perceptions on service quality. The focus of the organization on the attributes that provide a set of superior and satisfying experiences is the key to service quality. Of course, the needs and wants of the customer is the prime priority to attain quality of service. A SWOT analysis can help the organization identify its strengths and weaknesses which is essential for overcoming the operational constraints. Measuring customer expectations of service is becoming increasingly important as the main dimension of service quality is those customers judge/ evaluate service quality by comparing their expectations of service with their perceptions of service experiences. Service quality gaps are formed when such expectations are not met. Thus, service firms are required to analyse the key service characteristics. It is only by clearly assessing expectations as well as perceptions that they can determine whether there are any service quality gaps in terms of the services provided.
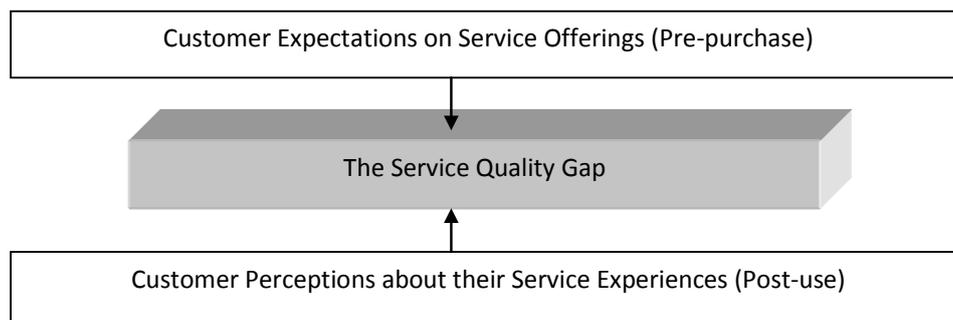
Many studies have advocated for the identification of gap areas and calculation of gap scores that help service marketers to gather information on customer expectations, perceptions of services received and the reasons for the rift.

The concerns regarding service quality gaps are: a) understanding gap, (b) designing gap, and (c) service delivery gap. The main causes for such gaps are identified as (i) inability of the service providers to understand correctly what customers expect of the service, (ii) Failure of the management to translate correctly their knowledge of customer expectations into service specifications, standards or guidelines, and (iii) The staff not following the service specifications, standards or guidelines.

A study on current service quality enables the service personnel to assess the service quality and identify any gaps that exist. Application of the service quality dimensions will allow an understanding of the broad areas where customers have particularly high-or low – expectations and an evaluation of the aspects where there may be relatively large gaps. This will help service employees identify where performance have to improve in order to meet customers' expectations.

Services like tourism come across distinct and different customer segments. The gap approach can be used to compare the expectations, perceptions, and quality gaps for different segments. This will throw open insights to managers so as to determine where there are similarities and where there are differences. Also, gap assessment brings out the comparisons across different parts of the same service – as on a geographical or demographical bases.

For delivering quality service, internal customer service must also be of excellent quality. The service received by the external customer will be low quality if internal customer service is not delivered, i.e., the internal staff needs to be recipients of a quality service themselves. The service quality delivery approach can be used to assess internal as well as external service quality.

The gap approach does enable the managers to assess at some stage in the future whether service developments have had any effect on the customer and the service company's performance. By measuring SERVQUAL gaps, the service organisations should be able to identify specific actions that can be taken to improve satisfaction levels, improve service, and consequently improve the results for the businesses. Identifying and taking actions that result in change is more important in this context.

What is Service Quality?

Service quality may be defined as the customer's judgement of overall excellence of the service offerings provided in relation to the expectations on quality. Both the process quality (service delivery) and outcome quality are of importance.

Reliability, Assurance, Tangibles, Empathy, and Responsiveness are stated to be the five dimensions of service quality.

Service quality is the delivery of excellent or superior service performance relative to expectations of consumers. It is the degree of conformance of all the relevant features and characteristics of service to all the aspects of the consumers' needs limited by the price and delivery they will accept.

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              ┌──────────────────────┴──────────────────────┐
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┌─────────────────────────────┐          ┌─────────────────────────────┐
│  Internal Quality (based on │          │  External Quality (based on │
│       conformance to        │          │   customers' perception on  │
│       specifications)       │          │       service quality)      │
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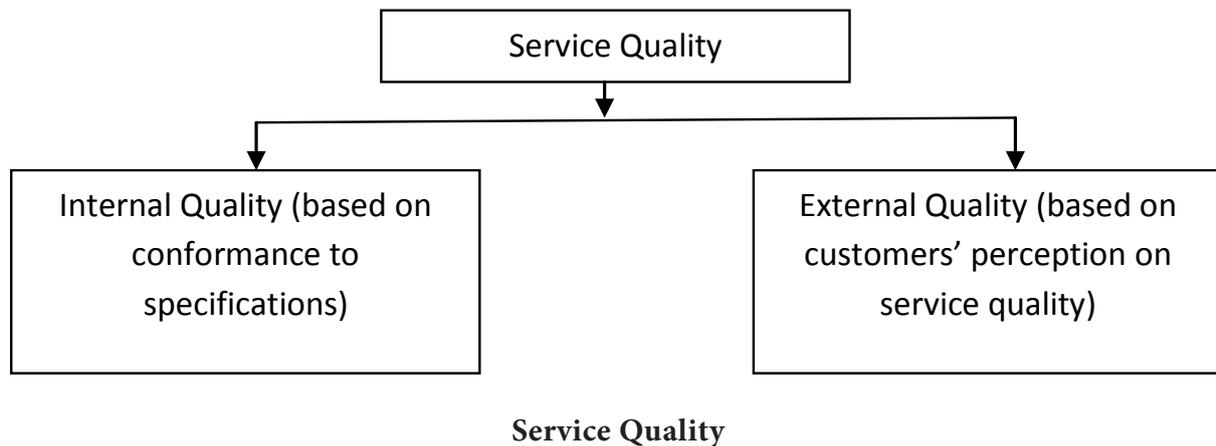
Service Quality

The main benefits of achieving service quality are:

1. The service firm will gain competitive edge over others
2. Increase brand value
3. Improve profits and revenues

The service quality assessments are formed on the evaluation of:

A) Outcome of service quality
B) Interaction quality
C) Quality of physical evidence

Types of Service Quality Gaps

How to deal with service quality is a critical question faced by service managers. Quality is the most expected character in all service performances. High and unique quality is a way to win customers' confidence and retain them for a long time. Among many concepts of service quality, the service quality gaps model plays a significant role in the service management literature.

The model (Parasuraman, et al', 1985) identifies the following gaps, viz, customers' expectations vs. their understanding by management, management perception of customers' expectations vs. service specifications, service specifications vs. performance, information about service vs. service that is actually provided, and the gap between customers expectations and service provided.

These five service quality gaps model is widely known and appreciated. New frames of service quality gaps are mooted by researchers. Further, lot of empirical researches with respect to service quality gaps is getting published.

Facets of Service Quality

Service quality is vital for both the customer and the service firm. Service quality is used by organizations to differentiate its services form that of others. Service companies use service quality in maintaining competitive advantage and customers assess service quality to differentiate between competitors. Service quality is related to quality of the output, quality of the process, and quality of the delivery systems.

The facets of service quality refers to process quality as evaluated by customer during a service performance and output quality judged after a service is delivered.

A service organization delivers to customers' service packages which configure tangible aspects and intangible aspects. Christian Gronroos proposed that the quality of service as perceived by the customer has two dimensions, viz, technical or outcome dimensions and the function of process related dimensions.

Technical dimensions highlight what is made available to the customers and when they will receive it; while functional quality focuses on how they will get it.

Parasuram, Zeithaml, and Berry who conducted in-depth studies on service quality identified ten criteria used by consumers in evaluating service quality.

Ten Dimensions of Service Quality

Dimension and Definition	➤ Examples of Specific Questions Realised by Customers
Tangibles: Appearance of physical facilities, equipment, personnel and communication materials	➤ Are the bank's facilities attractive? ➤ Is my stock broker dressed appropriately? ➤ Is my credit card statement easy to understand? ➤ Do the tools used by the repair person look modern?
Reliability: Ability to perform the promised service dependably and accurately	➤ When an officer says she will call me back in 15 minutes, does she do so? ➤ Does the stockbroker follow my exact instructions to buy or sell? ➤ Is my credit card statement free of errors? ➤ Is my washing machine repaired right the first time?
Responsiveness: Willingness to help customers and provide prompt service	➤ When there is a problem with my bank statement, does the bank resolve the problem quickly? ➤ Is my stockbroker willing to answer my questions? ➤ Are charges for returned merchandise credited to my account promptly? ➤ Is the repair firm willing to give me a specific time when the repair person will show up?
Competence: Possession of the required skills and knowledge to perform the service.	➤ Is the bank teller able to process my transactions without fumbling around? ➤ Does my brokerage firm have the research capabilities to accurately track market developments? ➤ When I call my credit card company, is the person at the other end able to answer my questions? ➤ Does the repair person appear to know what he is doing?
Courtesy: Politeness, respect, consideration and friendliness of contact personnel.	➤ Does the bank teller have pleasant demeanor? ➤ Does my broker refrain from acting busy or being rude when I ask questions? ➤ Are the telephone operators in the credit card company consistently polite when answering my calls? ➤ Does the repair person take off his muddy shoes before stepping on my carpet?

Credibility: Trust worthiness, believability, honesty of the service provider.	➢ Does the bank have a good reputation? ➢ Does why broker refrain from pressuring me to buy? ➢ Are the interest rates/fees charged by my credit card company consistent with the services provided? ➢ Does the repair firm guarantee its services?
Security: Freedom from danger, risk or doubt.	➢ Is it safe for me to use the bank's automatic teller machines? ➢ Does my brokerage firm know where my stock certificate is? ➢ Is my credit card safe from unauthorized use? ➢ Can I be confident that the repair job was done properly?
Access: Approachability and ease of contact.	➢ How easy is it for me to talk to senior bank officials when I have a problem? ➢ Is it easy for me to get through to my broker over the telephone? ➢ Does the credit card company have a 24 hour toll-free telephone number? ➢ Is the repair service facility conveniently located?
Communications: Keeping customers informed in language they can understand and listening to them.	➢ Can the loan officer explain clearly the various charges related to the mortgage loan? ➢ Does my broker avoid using technical jargon? ➢ When I call my credit card company, are they willing to listen to me? ➢ Does the repair firm call when they are unable to keep a scheduled repair appointment?
Understanding the Customer: Making the effort to know customers and their needs.	➢ Does someone in my bank recognize me as a regular customer? ➢ Does my broker try to determine what my specific financial objectives are? ➢ Is the credit limit set by my credit card company consistent with what I can afford (i.e., neither too high nor too low)? ➢ Is the repair firm willing to be flexible enough to accommodate my schedule?

The authors realised a high degree of correlation between most of the above mentioned variables and consolidated them into five broad dimensions.

1. **Tangibles** – This refers to the appearance of physical elements. Tangibles are used when judging the physical qualities before the service is experienced.

2. **Responsiveness** -This involves promptness and helpfulness. It is the capability and willingness of the service provider to respond to the needs of the customers and serve them promptly. Customers view responsiveness as the organisation's ability to offer something very special.

3. **Reliability** – This refers to dependable and accurate performance. It is the character of the service company to perform the service accurately and dependably. For the customer, the consideration is whether the promise made by the service organization has been met. A majority of customers rate reliability as the most important of the five dimensions of the service performance.

4. **Assurance** – This stands for competence, credibility, courtesy, and security. A supervision of assurance will provide inputs as to the satisfaction levels of customers. It indicates that the service personnel have understood customer needs and delivered them.

5. **Empathy** – This includes easy access, positive communication and customer understanding. It is regarded as the personal human touch! Empathy is the determination of the service firm in going beyond customer needs and putting the feet in their shoes.

6. H**istory of the Service Quality Gaps Model**

The service quality gaps model was first developed by a group of authors, Parasuraman, Zeithaml, and Berry at Texas A & M and North Carolina Universities in 1985. They proposed the model based on exploratory studies of service such as focus group and executive interviews in various service businesses. The conceptual model of service quality developed by the authors' points out that customer's perception towards service quality depends on the four gaps existing in the organization. Subsequently they developed in-depth measurement scales for service quality.

Theoretical Framework of the Gaps Model

According to the model, the perceived service quality can be defined as the difference between customers' expectations and perception on outcomes. This depends on the size and

the direction of the four gaps concerning the delivery of service quality from the service firm's perspective. Parasuraman, et al' represented it as:

Customer Gap = f (Gap1, Gap2, Gap3, Gap4). The size and direction of each gap will affect the service quality. For example, Gap 4 will be favourable if the customers are property oriented about the nature of service delivery by effective communication, and it will be unfavorable when the company failss to reach its customers to educate them about the service offerings.
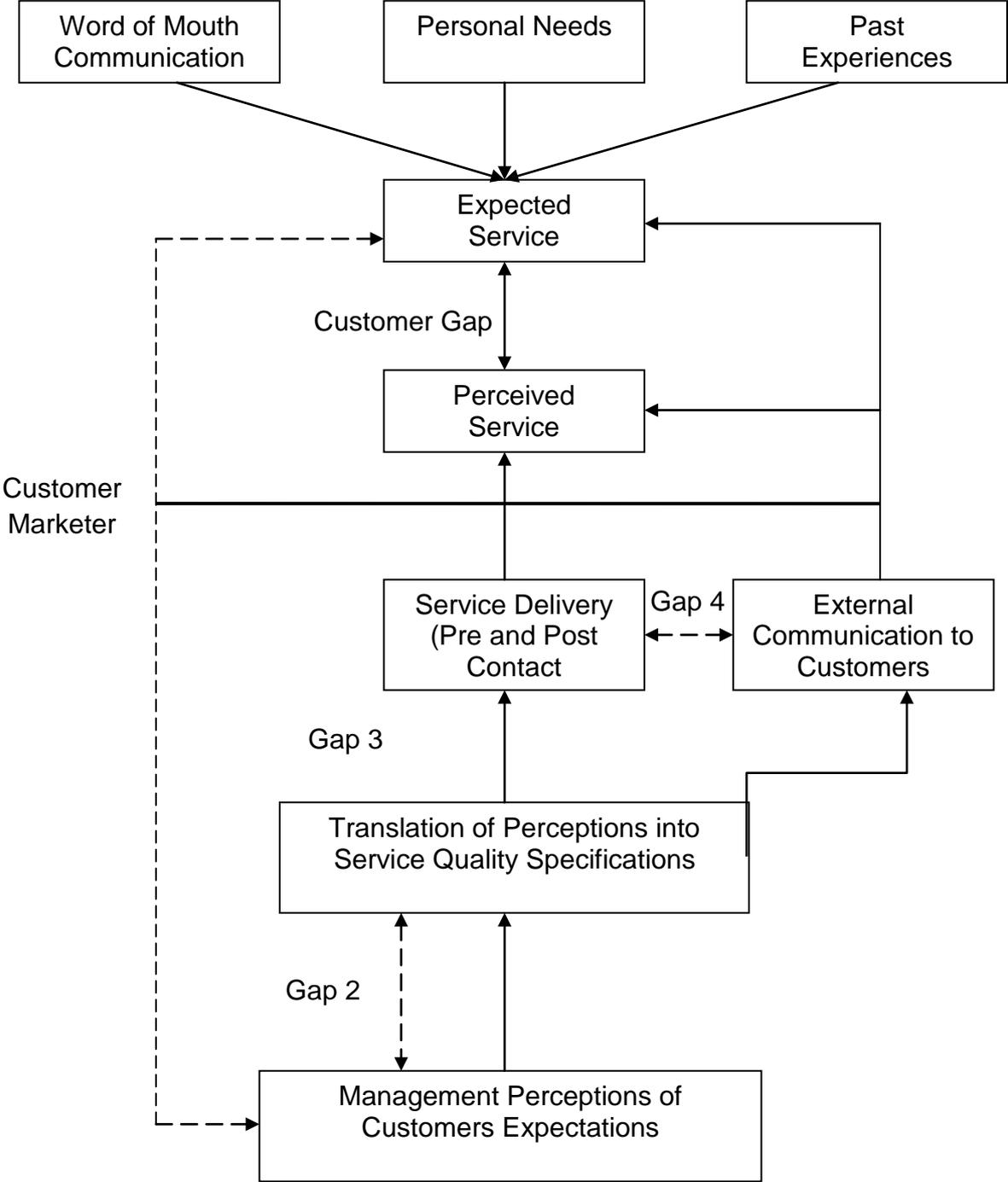
The Integrated Gaps Model of Service Quality (Parasuraman, Zeithaml, Berry, 1985)

The important points for each gap can be summarized as follows

- ➢ Customer gap: The difference between customers' expectations and their perceptions on service experiences (outcomes) – *the service quality gap*.

- ➢ Gap 1: *The knowledge gap*- the difference between what customers expected and what the service provider perceived as regards the customers' expectations.
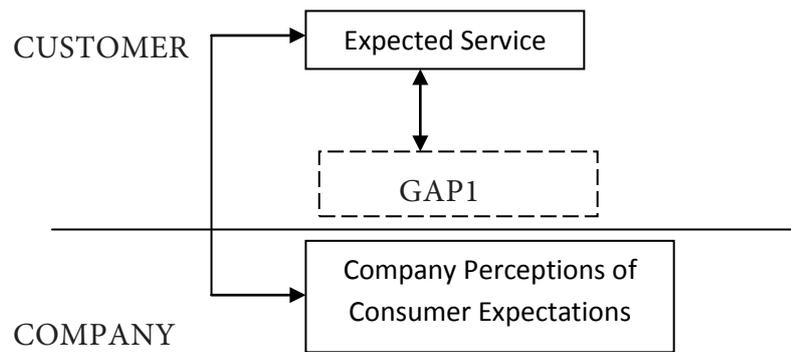
Gap 1- The Knowledge Gap

- ➢ Gap 2: *The standards gap*- the difference between management's perceptions of customer expectations and the translation of those perceptions into service quality specifications and deigns.
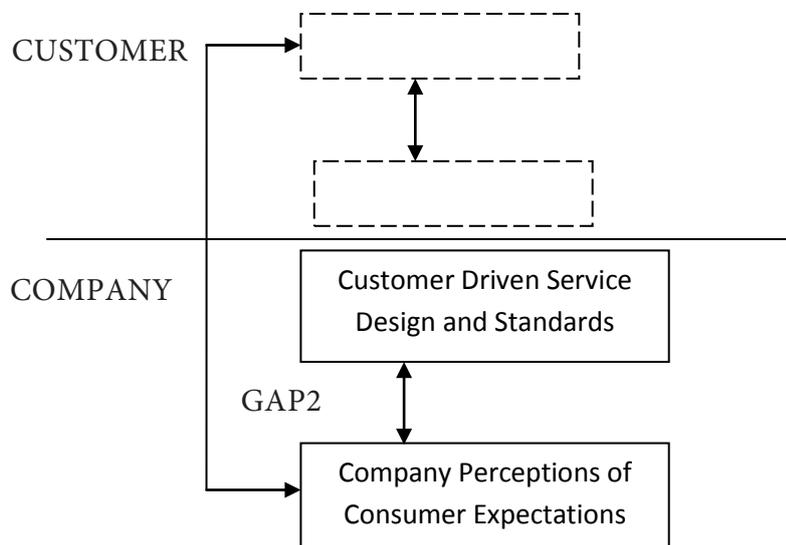
Gap 2- The Standards Gap

- ➢ Gap 3: *The delivery gap*- the difference between specifications or standards of service quality and the actual service delivered to customer.

Gap 3- The Delivery Gap
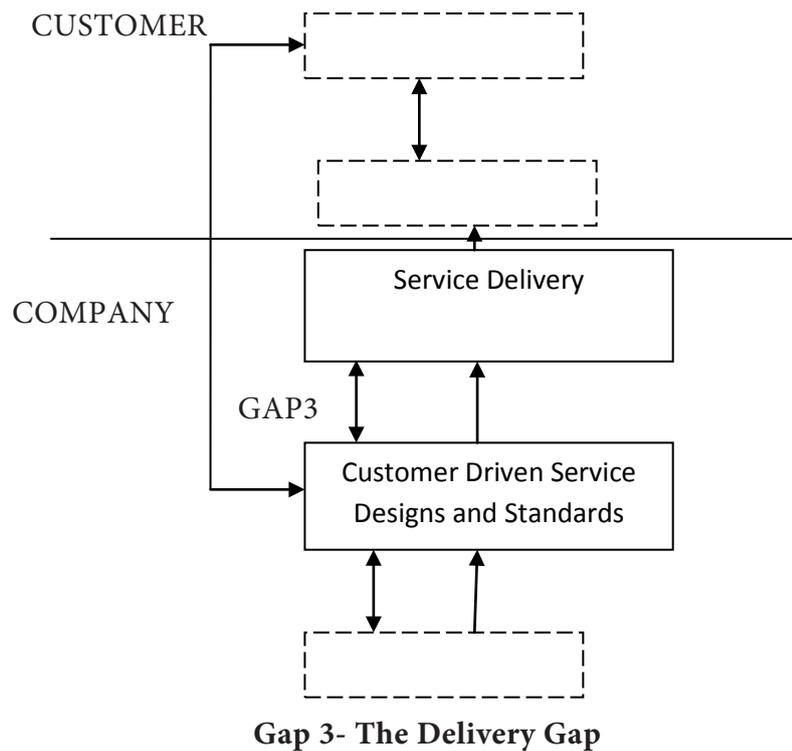
➢ Gap 4: ***The internal communications gap-*** the difference between the service delivered to customers and the promise of the firm to customers about its service quality

Gap 4- The Internal Communications Gap
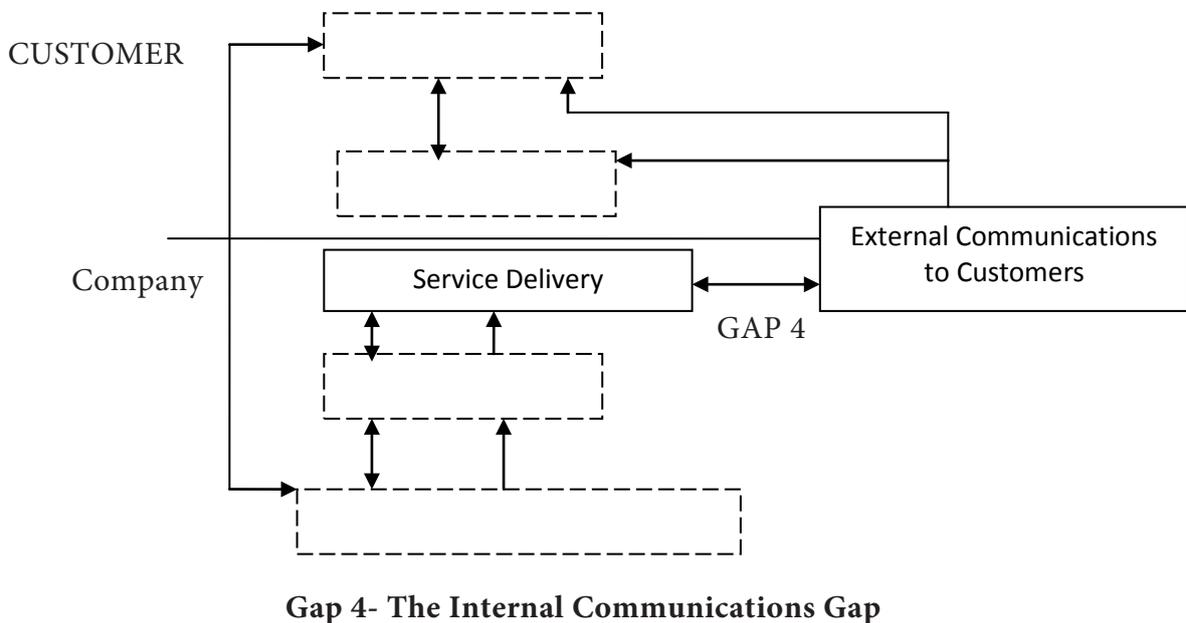
The Dynamics of Application of the Gaps Model

The service quality gaps model proposed by Parasuraman, Zeithaml, and Berry (1985) lucidly figures out two different types of gaps in service marketing, namely the customer gaps and the service marketer gaps. The second one is considered as internal gaps within a

service organization. This model regards the services as a structured and integrated model which connects external customers to internal services between the different functions in a service company.

The key applications of the model are as follows:
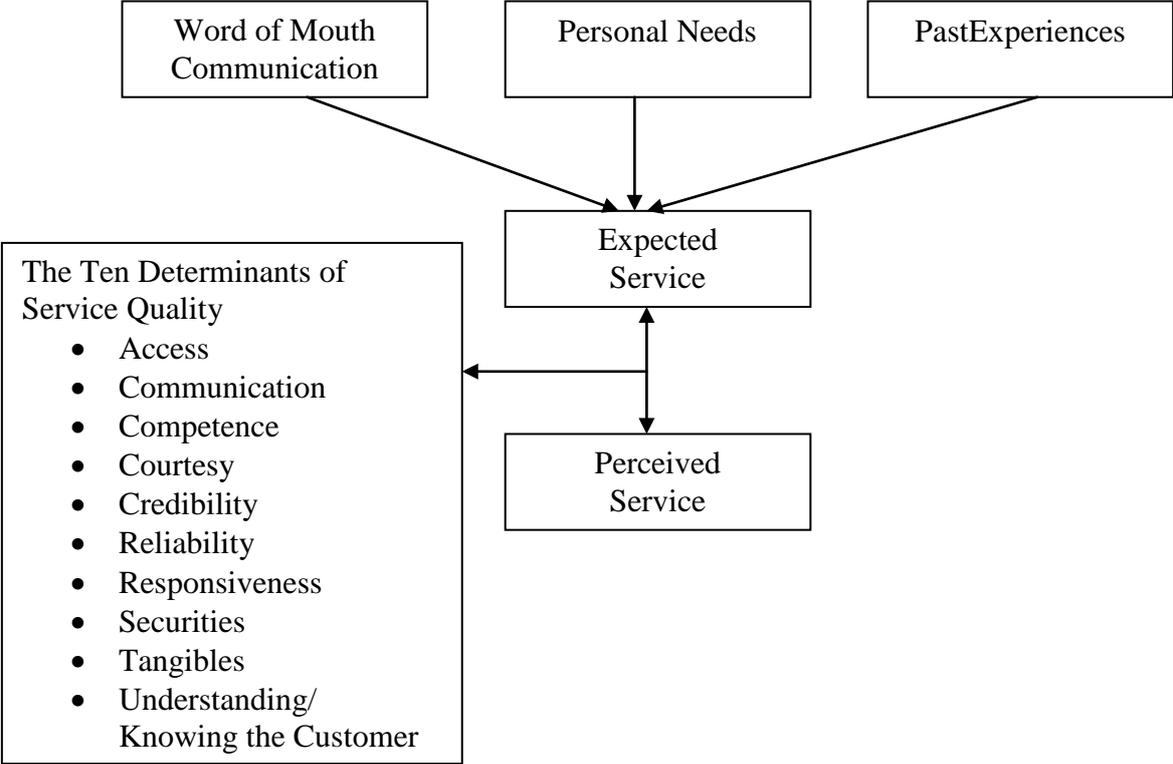
The Ten determinants of Service Quality
(Parasuraman, Zeithaml, Berry, 1985)

The service quality gaps model brings to light the dimensions of customers' perceptions of service quality vis – a – vis their pre purchase expectations. The model highlights that customers always use the ten elements to form the expectations and perceptions of service quality. The model benefits service organizations by helping them to identify the crucial factors that cause the gap which alienates the firms' quality offerings from customers' expectations.

CUSTOMER

Company

```
Expected Service

GAP5

Perceived Service

Service Delivery          External communications
                          to Customers

GAP1        GAP3                    GAP 4

        Customer-driven Service
        Designs and Standards

GAP 2

        Company Perceptions of
        Consumer Expectations
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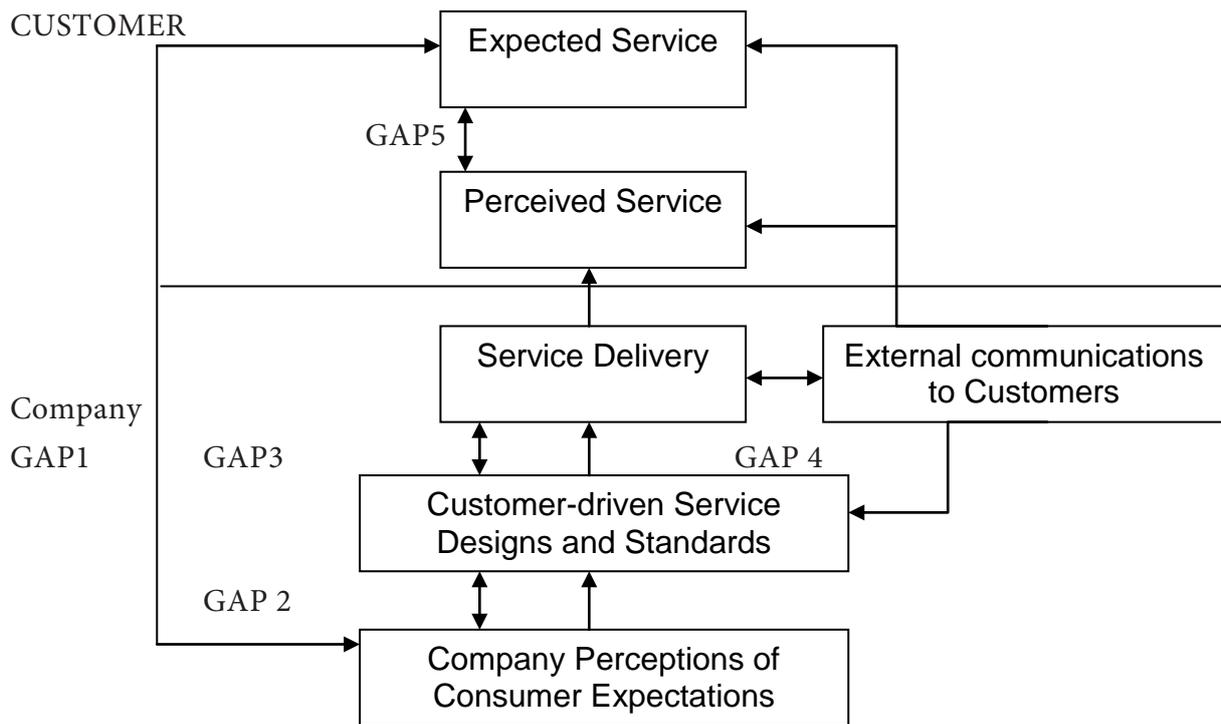
Bridging the Gaps (GAPS Model of Service Quality)

The Factors Influencing Customer Satisfaction

The key factors are:

- ➢ The quality of service
- ➢ The attributes or features of service
- ➢ Consumer emotions / attachments / associations / relationships
- ➢ Attributions for service success or failure
- ➢ Balanced evaluations

Advantages of Customer Satisfaction

The benefits of customer satisfaction can be identified as:

- ➢ Increased retention/loyalty of customers
- ➢ Positive word – of - mouth communications
- ➢ Increased profits and revenues
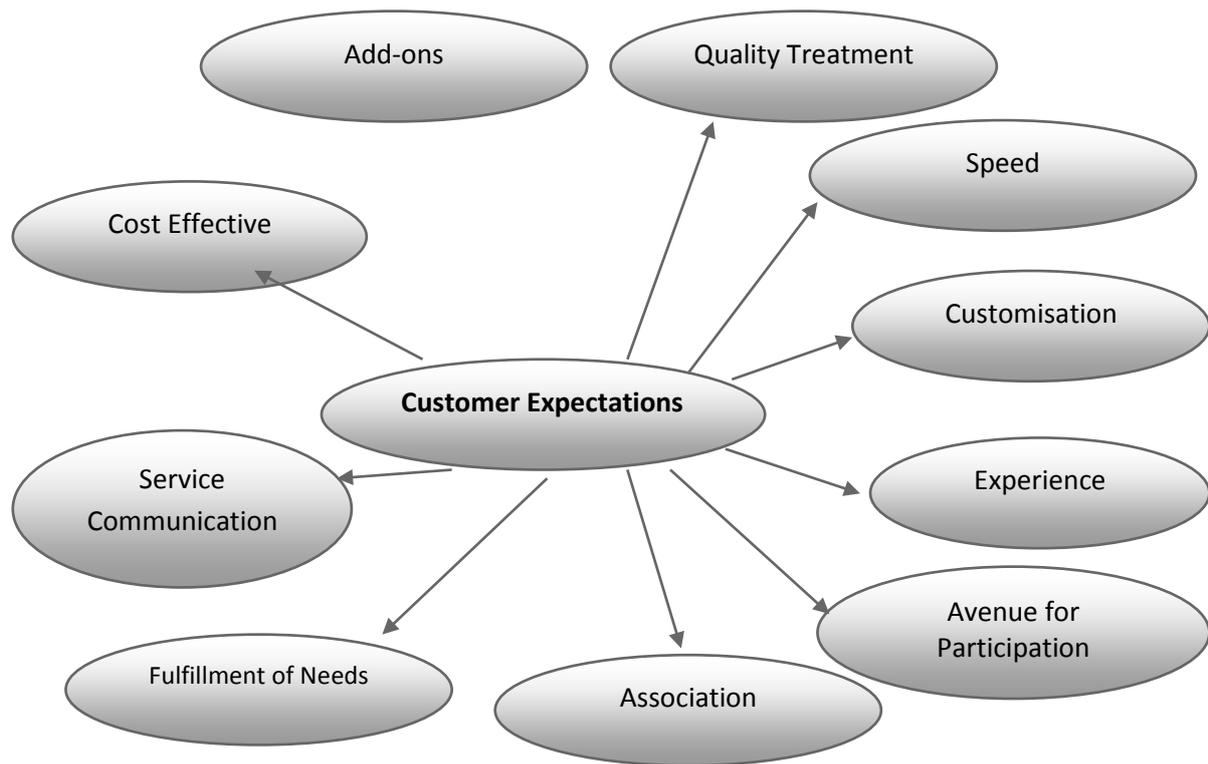
Customer Expectations of Service

Application of the Results of Gap Assessment in Service

The gap approach offers considerable potential for the service company to evaluate the current performance and apply improvement measures to enhance the performance. The key steps involved in the application of the output of gap assessment are

Step 1: Identifying the core and related issues

Step 2: Consideration of the gap approach

Step 3: Defining customer segments

Step 4: Determining important service dimensions

Step 5: Survey Design (questionnaire, sampling etc)

Step 6: Carry out the survey

Step 7: Analysis and interpretation of results

Step 8: Action plan for bridging gaps

Step 9: Monitoring and Evaluating actions

Some typical causes for the gaps in service and some strategies for addressing / reducing gaps are given below:

Gap 1: Customer Information, the gap between customer expectations and what the service provider thinks it is providing.

The causes are:

- ➢ No direct interaction with customers
- ➢ Not understanding customer expectations
- ➢ Service offerings not catering to the requirements
- ➢ Improper communication
- ➢ Lack of market segmentation to understand the needs of each segment.

The strategies to reduce the gap are:

- ➢ Implicit and explicit communication with customers
- ➢ Efficient market research
- ➢ Customer relationship programmes

Gap 2: Service standards, the gap between what the service provider perceives about its deliverance and the actual standards of the service provider.

The causes are:

- ➢ Lack of customer driven standards of service delivery
- ➢ Infrastructural and HR constraints
- ➢ Disinterestedness of management
- ➢ Undefined service design
- ➢ Taking service quality for granted
- ➢ Lack of consistency in service delivery
- ➢ Absence of formal quality – control goals

The strategies to reduce the gap are:

- ➢ Focus of management to ensure all round development
- ➢ Service quality goals
- ➢ Building up service infrastructure
- ➢ Training and motivating HR
- ➢ Standardization of tasks

Gap 3: Service delivery, the gap between the service provider's standards and actual performance.

The Causes are:

- Lack of knowledge among employees about service specifications
- Unskilled employees
- Lack of employee empowerment
- Lack of training to the franchisee's staff
- Insufficient / inappropriate technology
- Poor performance management
- Lack of customer education
- Ambiguity and conflict with roles.
- Failure to match supply and demand fluctuations

The strategies to reduce the gap are:

- Improving teamwork
- Ensuring employee job compatibility
- Ensuring technology job compatibility
- Empowering employees
- Monitoring and supervision.
- Reducing role conflicts
- Reducing role ambiguity

Gap 4: Internal communications, the gap between what the service provider is marketing and what is being delivered

The main causes are:

- Friction in communication between
  a) Sales and operations
  b) Marketing and operations
- Inconsistent policies within the organisation set – up
- Non – fulfillment of promise

The strategies to reduce the gap are:

> ➤ Enhancing communication between
>
>   a) Marketing and operations
>   b) Sales and operations
>
> ➤ Drafting an all- reach common policy in tune with the vision and mission of the organisation
>
> ➤ Avoiding over promising

Gap 5: Service quality, the gap between the customers' expectations and their perception of the service delivery. This summarises gaps 1 to 4

> ➤ There are two measures for gap 5
>
>   a) Measure of Service Superiority (MSS) which is Perceived Service – Desired Service
>   b) Measure of Service Adequacy (MSA) which is Perceived Service – Adequate Service

It can be illustrated as:

| Desired Service |
| Zone of Tolerance |
| Adequate Service |

MSS

MSA

Zone of Tolerance
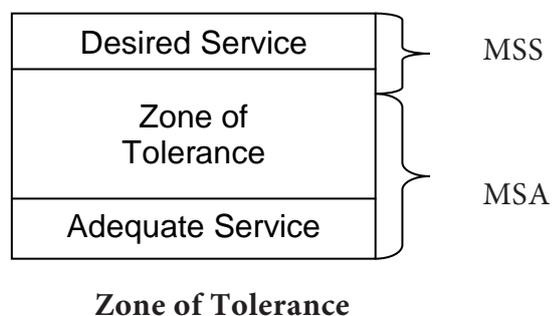
Gaps in Service Design and Delivery

Service quality can be construed as the ability of the firms to consistently meet or exceed customers' expectations. The service managers' responsibility is to balance customer expectations and perceptions and to bridge any gaps between the two.

Zeithaml, Berry, and Parasuraman, identified four potential gaps within the service organization that may lead to a final and the most serious gap; the difference between what customers expected and what they perceived was delivered to be experienced. Its framework was elaborated and refined to identify three more types of gaps that can occur at

various phases during the design and delivery of a service performance. That is, apart from the knowledge gap, the standards gap, the delivery gap, and the internal communications gap are identified three more types of gaps that can occur at various phases during the design and delivery of a service performance. Those three more gaps identified are – the perceptions gap, the interpretation gap, and the service gap.

The refined gaps may be explained as follows:

1. *The perceptions gap*- This implies the difference between what is, in fact, delivered and what customers perceived they have experienced (because in the service industries, it is difficult for customers to judge service quality)

2. *The interpretation gap*- This refers to the difference between what a service provider's communication channels (before service delivery) promise and what a customer understand was promised by these communications.

3. *The service gap*- This is the difference between what customers expect to receive and their perceptions of the service that is delivered.

The Seven Service Quality Gaps
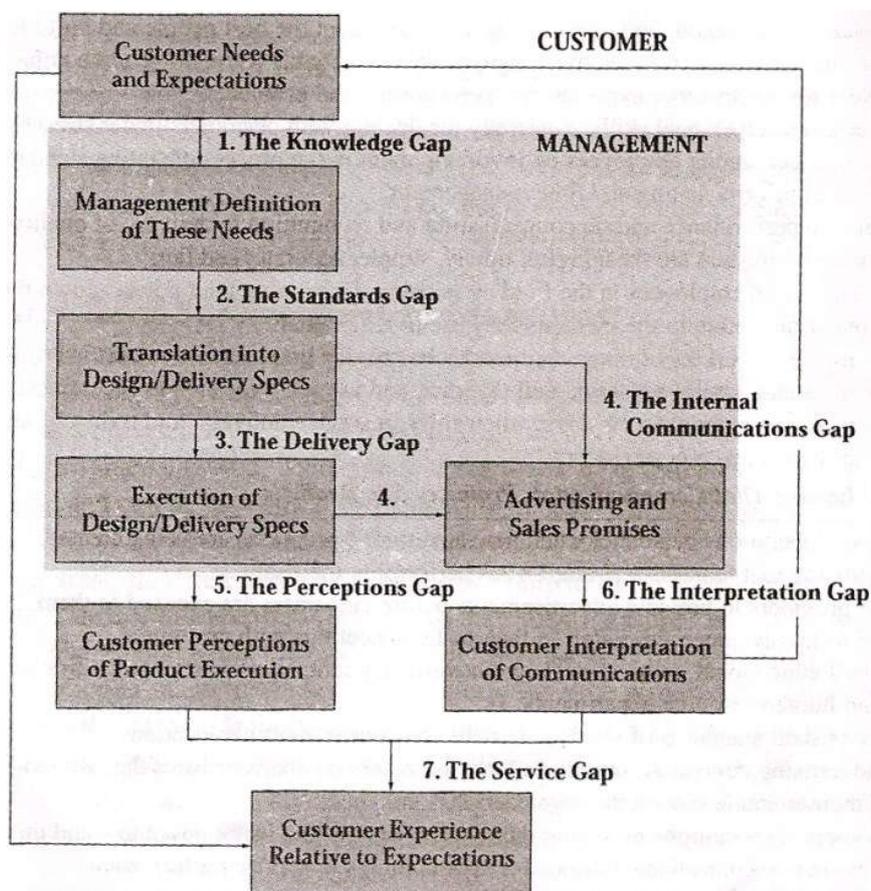
Courtesy-Christopher Lovelock, Product Plus (New York, McGraw Hill, 1994).

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Gaps 1, 5, 6 and 7 reflects the external gaps between the customer and the service firm. Gaps 2, 3, and 4 are internal gaps occurring between different functions and departments within the organisation. Gaps at any stagein service encounter can affect the relationships with customers. Among the gaps, the service gap is critical. To improve service quality, it is important to offset this gap. Furthermore, it requires determining the specific causes of each gap and then framing strategies to bridge them.

Benefits of Service Quality

Service quality lays focus on the customer. It enables the service organization to:

- ➢ Enhance productivity
- ➢ Improve profitability
- ➢ Build brand image
- ➢ Easy to distinguish from the competitors
- ➢ Focus on continuous improvement
- ➢ Motivate employees
- ➢ Reduce price sensitivity
- ➢ Attract word – of – mouth publicity
- ➢ Bring about customer delight
- ➢ Avoids failure
- ➢ Boost employee participation
- ➢ Pro-active customer engagement
- ➢ 'Right' from the word go
- ➢ Reduce costs
- ➢ Strengthens internal customer / supplier relationship
- ➢ Goodwill for the firm

Dimensions of Quality

David Garvin in the article 'Competing on the Eight Dimensions of Quality' identified the following eight dimensions of quality applicable to services and physical products. These include:

a) Performance
b) Features
c) Reliability

d) Conformance

e) Durability

f) Serviceability

g) Aesthetics

h) Perceived quality or prestige

Service Quality and TQM

During the 1980s efforts were initiated to improve quality of manufacturing goods, i.e., to make products that conformed to requirements. Total quality Management (TQM) is the term widely used to refer to the movement. TQM is dealt with as a management philosophy or a way of doing business based on continuous quality improvement. TQM encapsulates a diverse set of quality techniques and strategies; significant among them are statistical process control, process management, employee participation, management commitment and leadership, empowerment, and team building. Organisations using any combination of these techniques, i.e., any specific quality technique, are likely to term it as TQM.

TQM techniques are now adopted by a wide range of service companies. TQM is subscribed to by service firms to provide remarkable customer service.

Other Service Quality Gaps

The service quality gaps model demonstrates how the information about customers' expectations has been changing, how the employees comprehending, and perception of customer's requirements have evolved crossing a service firm. The model brings out the meaning of service quality as expected by customers.

Service quality gaps may also be detected in internal services of an organisation. Internal services and internal marketing of an organization is used in Total Quality Management to improve productivity and prevent losses. Auty and Long (1999) have identified such gaps as:

(1) The difference between consumer department's knowledge of possible service and supply department's capabilities,

(2) The difference between consumer department's expectations of quality and quality standards set for backward and forward linkages in the supply chain strategic goals,

(3) The difference between service provider's priorities and the organisation's strategic goals, and

(4) The difference between service delivery promises and resources / authority provided by organisation to fulfill those promises.

Bruhn and Georgi (2000), view that, taking into consideration employee perception, the lack of appropriate information causes the gaps of quality. They found out that the greater the discrepancy in staff information, the greater perceived size of quality gaps.

Candido and Morris (2000) researched the management's perceptions of customer's outlook on the service; vision, mission and service strategy; financial and human resources management.

Seth et al. (2006) mentions that there might be many quality gaps in co-operation with suppliers.

Candido and Morris (2000) identify two gaps associated with the perception of contact staff. The first one pertains to perception of customer's expectations, and the second one delves on perception of customers' experiences.

Peiro et al, (2005) indicate two different personnel's perception gaps, viz, a gap in functional perception and a gap in relational perception. Yet another gap is the discrepancy in the actual service quality and their assessment in the quality measurement process.

Zeithaml et al. (2002) propose four gaps specifically focused on e-service industry, which are modification of the five original quality gaps by Parasuraman et al. (1985). They are information gap, design gap, communication gap, fulfilment gap.

Summary

Service quality is an issue of great concern for service managers. It is now strongly linked to customer satisfaction and therefore marketers take lot of interest in the quality of service delivery. The marketing, operations, and human resources managers need to effectively communicate with each other to ensure that they can deliver quality experiences consistently.

In this lesson, we have considered the relationship between service quality and productivity. Service quality is the customer's judgement of the overall excellence of the

service offerings provided in relation to the expectations on quality. Reliability, Assurance, Tangible, Empathy, and Responsiveness are stated to be the five dimensions of service quality. Good service quality places a firm at a competitive advantage. This lesson highlights that the service quality assessment are formed on the evaluation of

a) Outcome of service quality

b) Interaction quality, and

c) Quality of physical evidence

This lesson deals with the types and causes of service quality gaps. The service quality gaps model proposed by Parasuraman, Zeithaml, and Berry is featured in this chapter with short explanations on the reasons for the gaps in service quality and also the strategies which may be considered to reduce the gaps. The service quality gaps model brings to light the dimensions of customers' perceptions of service quality vis – a – vis their pre – purchase expectations.

Along with the gaps model are discussed in this lesson the factors influencing customer satisfaction and the various benefits of customer satisfaction for the service organisation. Due focus is given to the imperatives of application of the results of gap assessment in service firms.

In addition to the four service quality gaps, viz, the knowledge gap, the standards gap, the delivery gap, and the internal communications gap are given the three elaborated and refined gaps, viz, the perceptions gap, the interpretation gap, and the service gap. *Among the seven gaps the service gap is deemed to be critical.*

This lesson concludes with a narrative on the benefits of service quality and the aspects of service quality that goes into the making of the Total Quality Management philosophy.

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Lesson 5.3 - Measuring and Improving Service Quality

Learning Objectives

- ➢ To understand the advantages of measuring service quality
- ➢ To know the various standards of service delivery
- ➢ To study the measures of service quality
- ➢ To explain the processes of improving service quality

Introduction

Measurement of service quality is an area of growing interest to service managers and researchers. The need for measuring customer expectations is increasingly realised now. The nature of measurement is also deliberated in the back drop of scientific practices.

Service quality measurement may be classified into subjective and objective processes, for which mostly the customer satisfaction is measured. Measuring customer satisfaction may be considered as an indirect way to measure service quality. The objective processes consists of primary processes such as test marketing and customer behavior watch and secondary processes include quantifiable aspects like customer complaint numbers or numbers of returned products. The quality of service delivery can be measured from these. Subjective processes on the other hand may be classified into characteristic oriented, incident oriented and problem oriented processes. The SERVQUAL model belongs to the characteristic focused processes, whereas the Critical Incident Theory is part of incident focused processes. To the problem focused processes belong the Frequenz Relevanz Analyse which is a German system.

As discussed in the previous lesson the most important and most used process to measure service quality is the SERVQUAL method.

Measurement of service quality implies that service quality focuses on the needs and expectations of customers to enhance the delivery of service. The measurement of service quality assesses the gap between the customer's levels of expectation and the actual. It can be both the specific projects as well as continual processes to enhance and improve services.

The key to improving service quality is definitely *motivated employees*. The service staff must know why and how customers have to be kept happy and satisfied. They must be spirited enough to perform quality service.

It is important for service organization to listen to their customers earnestly. This can essentially prevent problems in service encounters. Customers should have trust and confidence in the firm- that their complaints are redressed swiftly and efficiently.

The service firm must establish an environment where excellent service is recognized and rewarded and poor service is challenged and corrected. Service companies must make it a point to deliberate on imbibing good service elements.

The modern methods of quality improvement are directed at achieving better profitability. Quality control for service businesses has much to do with changing the orientations and attributes of the service provider, particularly the front end and back – end employees actually providing the services. Developing definitive feedback systems is a very essential constituent of quality improvement. Setting specific goals and adherence to the same are essential to ensure continuous improvement in the quality standards of service delivery. Customer satisfaction can be greatly attributed to the quality of the service. Thus, delivery of high quality service is important to the high service value perceptions. For forming productive relationship with customers and further retaining them, the service delivery quality can be deemed as the main differentiator. Further, the standards set by the service provider and customer, bench marking actions taken on customer complaints, lost customer analysis, and critical incident analysis are significant measures of service quality.

The intangibility of services makes measurement of service quality a difficult task. Most of the services cannot be assessed, counted, or evaluated before to check quality. Therefore, the service company faces difficulty in understanding how customers perceive its service to judge service quality. The participation of the customer in the service delivery process may further make the issue complex. Moreover, the variability of service delivery too makes it difficult for the service provider to set standards.

Measures of Service Quality

There are soft and hard measures identified in service quality. Soft measures are those which are not easily observed and are required to be collected after interacting with the customers, employees, or others. The soft measures provide a road map to service personnel on the ways to achieve customer satisfaction. They can be quantified by measuring customers' beliefs and perceptions. The examples of soft measures of service quality include SERVQUAL, surveys, and customer feedback analysis.

Head measures of service quality are those which can be determined, calculated, timed, or measured through audits. They are mostly operational processes or outcomes. Standards of services are usually set with reference to the percentage of occasions on which a particular measure is reached. Here, control charts help to assess the performance in a given amount of time in tune with the quality standards.

The important customer centric soft quality measures include:

- ➢ Market surveys
- ➢ Annual Surveys
- ➢ Transactional surveys
- ➢ Customer Feedback coupons
- ➢ Complaints box and register- analysis and action
- ➢ Focus group discussions
- ➢ Service reviews

Also configured in soft quality measures are:

- ➢ Customer relationship programmes
- ➢ Customer advisory panels
- ➢ Feedback from employees on

  a) Perceptions of the quality of service delivered to customers on particular dimensions
  b) Obstacles to quality service
  c) Inputs for improvement

The methodology of hard measures of service quality cover:

Control charts to monitor a single variable which offer a simple method of reflecting performance over time against specific quality standards. It will be exact only when the database in accurate. This methodology is appropriate in the context of trend analysis. For example the Control Chart for departure delays.

Yet another method is the service quality index that comprises activities which have an impact on customers. For example the Fed Ex's service quality index.
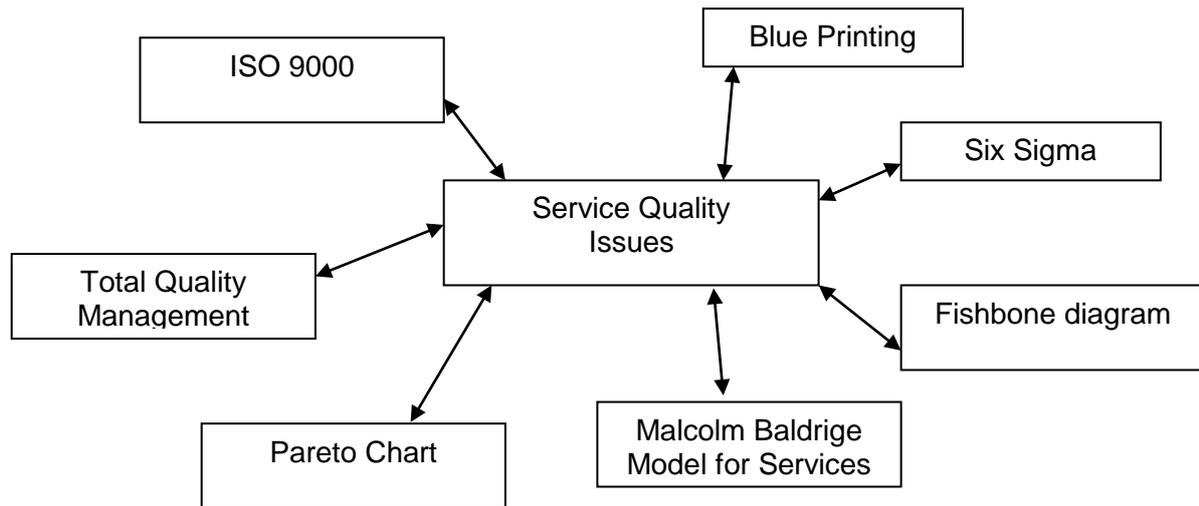
Tools to Analyse and Solve Service Quality Problems

Blueprinting refers to visual presentation of entire service delivery processes and identifying points where failures are most likely to occur, so that it can be addressed immediately and effectively.

Pareto Chart – This is a way of churning out the most important from the lesser ones. It is considered that a majority of problems is caused by a minority of causes (the 80/20 rule)

Total Quality Management- TQM concepts was originally developed in Japan. Recently it started to be used in service companies. Some concepts and tools to TQM can be directly applied to services. Control charts, Flowcharts, Fishbone diagrams, and other TQM tools are being used by service firms with great results for measuring service quality and identifying reasons for service failures.

Twelve significant Dimensions for Implementation of TQM in Service context are.

➢ Commitment of top management and visionary leadership
➢ HRM
➢ Benchmarking
➢ Continuous improvement
➢ Technical systems including service process design and management
➢ Information and analysis system
➢ Employee satisfaction and morale
➢ Association intervention and employee relations
➢ Customer focus

- ➢ Social responsibility
- ➢ Service scapes
- ➢ Service culture

ISO 9000

This comprises requirements, guidelines, definitions, and related standards to provide an independent assessment and certification of a service organisation's quality management system

ISO 9000 Certification

The International Organisation for Standardization (ISO) is based in Geneva, Switzerland. The ISO promotes standardization and quality to facilitate international business. ISO 9000 comprises requirements, definitions, guidelines, and related standards to provide a free and fair assessment and certification of a company's quality management system. The official lSO 9000 definition of quality is: "The totality of features and characteristics of a product or service that bear on its ability to satisfy a stated or implied need. Simply stated, quality is about meeting or exceeding your customer's needs and requirements'. To ensure quality, ISO 9000 uses many tools to measure the performance of the participating organisations. Major Service sectors that have adopted ISO 9000 certification include wholesale and retail firms, IT service providers, health care providers, consultancy firms, and educational institutions. By taking ISO 9000 standards, service companies can ensure that their services conform to customer expectations. Further, they achieve improvements in internal productivity.

Six Sigma

This system has evolved from problem reduction approach to an overall business development approach. Statistically examined, only 3.4 defects as per million opportunities, i.e. 1/2,94,000.

The Six Sigma methodology is used to improve and redesign service processes. It identifies the problems (specific or broad), define the goals and clarify customer requirements for a service process. As regards measuring service quality it serves to validate problem or process, redefine the problem or goals, measure performance to requirements and gather process efficiency data. For analysing, it develops causal hypothesis, identify root causes and best practices, assess process design, validates hypothesis and refine requirements. Six Sigma improves service quality by developing ideas to measure root causes doing new

process, test solutions, measure result and implement new process, structures, and systems. Furthermore, it establishes measures and reviews to maintain performance and rectify problems as desired.

Malcolm Baldrige Model

This model promotes the best practices in quality management. It recognizes and publicises quality management. It recognises and publicises quality achievements mostly among the companies in USA.

The Malcolm Baldrige National Quality Award

This is one of the most prestigious quality awards in the USA. The award is named after Malcolm Baldrige who served as Secretary of Commerce during the Raegan administration (1981-1987). An innovator, Baldrige developed and implemented path breaking administrative and prude policies with China, India, and the USSR. He was known for exceptional managerial excellence and expertise.

After his tragic death in 1987, in honour of Malcolm Baldrige, the Malcolm Baldrige National Quality Award was signed on August 27, 1987 as Public Law 100-107. The award is given to three enterprises in each of five business sectors that display overall excellence in the areas of leadership, strategic planning, customer and market focus, information and analysis, human resource development, management, and business results. The five sectors configure manufacturing, services, small business, education, and health care.

The Baldrige Model assesses firms on seven areas: (1) leadership commitment to a service quality culture; (2) planning priorities for improvement, including service standards, performance targets and measurement of customer satisfaction, defects, cycle time, and productivity; 3. Information and analysis that will help the organisation to collect, measure, analyse, and report strategic and operational indicator; (4) human resources management that enables the firm to deliver service excellence, ranging from hiring the right people to involvement, empowerment, and motivation; (5) process management, including monitoring, continuous improvement and process redesign; (6) customer and market focus that allow the firm to determine customer requirements and expectations; (7) business results.

Fishbone diagram – This serves as a cause – and- effect diagram to identify potential causes of problems.

SERVQUAL

Service quality compares perceptions to what a customer should expect from an enterprise that delivers high – quality services. Service quality is concerned with the measure of a higher standard of service delivery.

A frequently used and fervently discussed measure of service quality is the SERVQUAL scale.

As discussed in the previous lesson, according to its developers Parasuraman, Berry, and Zeithaml, SERVQUAL is a diagnostic tool that unveils a firm's broad strengths and weaknesses in the realm of service quality.

The SERVQUAL model is based on five service quality dimensions that were obtained through extensive focus group interviews with customers. The five dimensions include tangibles, responsiveness, reliability, assurance, and empathy, and they provide the basic framework highlighting service quality.

The SERVQUAL instrument consists of two sections: a 22-item section that documents customer expectations of good performing organisations in the service industry, and a second 22-item section measures consumer perceptions of a particular organisation in that service industry (i.e. the company being assessed). Results from the two sections are then compared to arrive at 'gap scores' as against the five dimensions.

The wider the gap, the farther customer perceptions are from expectations and the lower the service quality evaluation. In contrast, the lesser the gap, the higher the service quality evaluation. Customer expectations are measured on a 7-point scale with the extreme labels of 'not all essential" and "absolutely essential".

Similarly, customer perceptions are measured on a 7-point scale with extreme labels of "strongly agree" and "strongly disagree. Thus, SERVQUAL is a 44- item scale that measures customer expectations and perceptions with respect to five service quality dimensions.

The tangible evidence that is associated with the service is taken into account for forming evaluations. The tangibles dimension of SERVQUAL compares customer expectations and the company's performance regarding the company's ability to handle its tangibles. An organisation's tangibles consists of variety of objects such as furniture, carpeting, lighting, wallpapers, brochures, uniform of the personnel, etc.

The tangible component in SERVQUAL is two dimensional; one related to infrastructure and facilities and the other focusing on personnel and communication system. The tangibles component of SERVQUAL is obtained through four expectation questions (E1-E4) and four perception questions (P1-P4).

The expectation questions relate to high performing firms within a particular industry, while the perception questions relate to the specific company under study. Comparing the perception scores to the expectation scores provides a numerical variable that brings out the tangibles gap. The smaller the number, the lower the gaps and the closer customer perceptions are to their expectations.

The questions that relate to the tangibles dimensions are as follows:

Tangibles Expectations

E1- Excellent companies will have modern-looking equipment.

E2 - The physical facilities at excellent companies will be visually appealing.

E3 - Employees of excellent companies will be neat in appearance.

E4 - Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent company.

Tangibles Perceptions

P1 - XYZ has modern – looking equipment.

P2 - XYZ's physical facilities are visually appealing.

P3 - XYZ's employees are neat in appearance.

P4 - Materials associated with the service (such as pamphlets or statements) are visually appealing as XYZ.

The reliability dimensions imply the consistency and dependability of a company's performance. Does the service quality vary after every delivery? Does the organization fulfill its promises? Do they bill accurately? Do they maintain accurate records?

Do they perform the service exactly at the first instance? Customers tend to be dissatisfied with unreliable service providers. Customers perceive the reliability dimensions to be the most important of the five SERVQUAL dimensions.

The questions asked to assess the reliability gap are as follows:

Reliability Expectations

E5 - When excellent companies promise to do something by a certain time, they will do so.

E6 - When customers have a problem, excellent companies will show a sincere interest in resolving it.

E7 - Excellent companies will perform the service right at the first time.

E8 - Excellent companies will provide their services on time they promise to do so.

E9 - Excellent companies will insist on error – free records.

Reliability Perceptions

P5 - When XYZ promises to do something by a certain time, it does so.

P6 - When you have a problem, XYZ shows a sincere interest in solving it.

P7 - XYX performs the service right at the first time.

P8 - XYZ provides its services at the time it promises to do so.

P9 - XYZ insists on error-free records.

Responsiveness refers to a service organisation's commitment to provide its services in a time bound fashion. The responsiveness dimension of SERVQUAL is related to the willingness and / or readiness of staff to provide a service. Sometimes customers notice that the employees are ignoring their needs. Responsiveness relates to the preparedness of the company to offer the service.

The SERVQUAL expectation and perception factors regarding responsiveness are as follows:

Responsiveness Expectations

E10 - Employees of excellent companies will tell customers exactly when services will be performed.

E11 - Employees of excellent companies will give prompt service to customers.

E12 - Employees of excellent companies will always be willing to help customers.

E13 - Employees to excellent companies will never be too busy to respond to customer requests.

Responsiveness Perceptions

P10 - Employees of XYZ tell you exactly when services will be performed.

P11 - Employees of XYZ will give you prompt service.

P12 - Employees of XYZ are always willing to help you.

P13 - Employees of XYZ are never too busy to respond to your request.

SERVQUAL'S assurance dimension focuses on the competence of the service firm, the courtesy it shows to the customers and the strengths of its operations. Competence refers to the firms' knowledge and skill in performing its service. Courtesy implies the nature of interaction between customer and service personnel, the modesty, politeness, friendliness and regard for the customers. Security is also an important constituent of the assurance dimension. Security stands for the customer's feelings that he/she is free from danger, risk, and doubt.

The SERVQUAL factors used to address the assurance gap are as follows:

Assurance Expectations

E14 - The behavior of employees of excellent companies will instill confidence in customers.

E15 - Customers of excellent companies will feel safe in their transactions.

E16 - Employees of excellent companies will be consistently courteous with customers.

E17 - Employees of excellent companies will have the knowledge to answer customer queries.

Assurance Perceptions

P14 - The behavior of employees of XYZ instill confidence in customers.

P15 - You feel safe in your transactions with XYZ.

P16 - Employees of XYZ are consistently courteous with you.

P17 - Employees of XYZ have the knowledge to answer your questions.

Empathy is the inclination and ability to experience another person's feelings as one's own. Empathetic organiSations understand customer needs and make their services accessible to the customers. For example Mobile Banking.

The factors that address the empathy gap are as follows:

Empathy Expectations

E18 - Excellent companies will give customers individual attention.

E19 - Excellent companies will have operating hours convenient to all their customers.

E20 - The employees of excellent companies give customers personal attention.

E21 - Excellent companies will have the customer's best interest at heart.

E22 - The employees of excellent companies will understand the specific needs of their customers.

Empathy Perceptions

P18 - XYZ gives you individual attention.

P19 - XYZ has operating hours convenient to all its customers.

P20 - XYZ employees give you personal attention.

P21 - XYZ has your best interests at heart.

P22 - Employees of XYZ understand your specific needs.

SERVPERF

The study results of Cronin and Taylor (1992 & 1994) on measuring service quality attempted to offer an alternative instrument to SERVQUAL. They investigated the conceptualisation and measurement of service quality and the relationships between service quality, customer satisfaction, and buyer motives. Cronin and Taylor tried to overcome the 'perceptions – minus – expectations' measurement focus of SERVQUAL model. The SERVPERF model of Cronin and Taylor is an instrument aimed to provide an alternative method of measuring perceived service quality and the significance of the relationships between service quality, customer satisfaction, and buyer motives.

In studying theses concepts and the relationships between them they argued that:

➢ A performance based measure of service quality maybe an improved means of measuring the service quality construct.

➢ Service quality is an antecedent of customer satisfaction.

➢ Customer satisfaction has a significant effect on purchase intentions.

➢ Service quality has less effect on purchase intentions than customer satisfaction.

The outcome of the investigation was a performance–based measurement; SERVPERF. The SERVPERF scale was created mainly as a response to the criticisms targeted at the SERVQUAL Scale.

It was created upon the premise that the best operationalisation of service quality is attained through measures of service organisation's performance. The measures used in this scale were expectations, perceptions of performance, and importance measures.

Observation Studies

Observation studies aid to gather information on how service personnel and customers act during service encounters. What customers and staff actually do is observed. Customers' actual responses can thus be tracked.

Also, the participation and involvement of employees in the service processes can be deducted. Observation studies form the basis of mystery shopping (discussed later in this lesson) which is widely used to gather information on customers' service and buying experiences.

Observation studies focus on assessing the quality of service, employee interactions with customers, store layout and appearance, range of services, staff reaction and service setting. Observation studies in services can be used in a variety of ways and for a variety of reasons. It can be the most significant means of achieving deep and insightful understanding of real phenomena that generate meaningful and applicable data for service providers.

Focus Group Discussions

Focus group of homogenous or heterogeneous respondents such as customers, contact personnel supervisors and managers can be extremely useful for assessing service quality. It can be conducted in a non-directive and unstructured manner to strengthen researcher's understanding and analysis of the service delivery process and activities of the service staff.

Open ended questions may be asked to collect data. Thus, the reasons behind specific opinions, attitudes, behavior, and perceptions of staff and customers can be collected. The main feature of focus group discussion is the simultaneous involvement of a number of respondents in the research process. Focus group research also incorporates the active role of the researcher in dealing with the research problem.

In-Depth Interview

Interview data is a major source of information especially from service managers and experts who won't be able to spare much time. It varies in scope from unstructured interview designed to uncover insights and understanding to structured interview focusing on a more structured questioning technique. In depth interviews explore a person's perceptions like what they think about a firm's service delivery system. The main aim is to explore the internal reality of the respondent. Another type of in-depth interview draws the picture of what the interview presents of an external reality. There are interviews seeking information and managerial perspectives from service managers

Importance Performance Analysis (IPA)

This is a procedure that shows the relative importance of various attributes.

Methods to Improve Service Quality

Generally, the service design or the service delivery can be improved to produce a high quality service outcome.

The service design consists of three aspects, i.e., the service product design, the service facility design, and the service process design.

The two established approaches to implementation of quality improvement policies are bottom – up and top – down approaches. In the case of bottom – up approach, the application of any policy commences from the lowest level of staff. It gradually lifts itself upwards, where middle and top management levels implement the policy.

In the top-down approach, the top management makes the first and definitive commitment to policy implementation and the approach is brought down to all levels of employees. The lower level staff in the service frim considers this approach seriously because they are aware of the dedicated involvement of the top management.

According to the guidelines in the ISO: "The responsibility for and commitment to a quality policy for service organisation belongs to the highest level of management."

Service quality paradigms cannot be transformed by directives. Changes in quality takes place only after changes happen in attitudes and behavior of the service personnel. Similarly the evaluation policy and review of monitoring norms do not guarantee

improvements in service quality. The modern approach to quality improvement ensures 100% good services by completely eliminating the chances of failures.

The service delivery configures the service delivery process, the service encounter environment and the interface between customers and service providers. The techniques which may be employed to make improvements in service delivery are:

1. Quality Function Deployment (QFD)
2. Failsafing – moving the line of visibility and the line of accessibility, and
3. Service Blueprinting

The Benefits of Measuring Service Quality

➢ The service companies will be able to identify where services need refinement taking into account the feedback of end users.

➢ Measuring service quality will enable the service company to provide services that are closely aligned to the expectations of customers.

➢ Helps in comparing service quality with competitors to develop benchmarks and imbibe best practices.

➢ Serves to be creative and improve strategies.

The Costs of Quality Improvement

The costs of quality improvement can be broadly divided into two groups: (1) cost of conformance and (2) Cost of non – conformance.

The Cost of Conformance

This consists of costs which are incurred to adhere or keep up with the prevailing standards or norms. The cost of conformance relates to the maintenance and improvement of service quality which are:

a) *Preventive costs*: These include training costs incurred for employees and costs of the dynamic design generated in the services.

b) *Cost of control*: This relates to consistently maintaining high quality of service delivery. It is required to conduct surveys and gather feedback from the customers to ensure that the delivery is in tune with the estimated level of service and quality standards.

The Cost of Non-Conformance

The non-conformance to planning and established standards results in additional costs of customer dissatisfaction, complaints, and warranty claims. The costs incurred are for rectifying, trouble – shooting, or compensating for the poor delivery of services.

Standards of Service Delivery

Service Provider's Standards of Service Delivery

In many cases, the service organization themselves choose to set standards for the service delivery. These are set within the parameters of the capability of the organization to perform them. According to the service firm, this is the standard of delivery that is generally perceived to be trendy or prevalent in the services market.

While assessing how a service or the organisation is meeting customer expectations it is important to define a standard against which service performance may be compared. It may be termed comparative advantage. This process of defining standards can start with goal setting. An overview of the internal and external process of goal setting for a service organisation may be similar to the following:

1. 90% - 95% of phone calls must be answered within 30 seconds of ringing.

2. 80% of the flights of an airline must be either on time or depart within 15 minutes of the scheduled time

3. Complaints related to employees in a hotel should not cross 1% of all the complaints. These illustrate the quantitative standards that are put in place to measure 'difficult propositions' of service.

Customer Expected Standards

From the service provider's point of view, it is necessary to set standards that fulfill customers' expectations. This process of setting standards would involve carrying out a survey of existing and prospective customers, with respect to their expectations.

Benchmarking

Benchmarking refers to setting standards to meet or exceed those of the industry leaders or competitors. Consistently upping the benchmarking process is also very important

as quality standards in services are dynamic. Benchmarking is required especially when a particular service provider conforms to the industry or competitors' strategies, in order to survive in the market.

Handling of Complaints

Service faults are perceived by customers and companies differently. Analysing and addressing customer complaints on a continuous basis will enable the service provider to comprehend frequent and dissatisfying service failures.

When the service provider finds a solution to the customer problem, it enhances the self- esteem of the customer.

Analysis of Shifted Customer

A customer who had been using the service, but changed to another service provider owing to shift of preference is termed 'lost customer'. The reasons for losing the customer have to be ascertained and dealt with by the service provider.

This method anyway provides vital inputs regarding the quality standards and service delivery process in line with the designed quality standards of delivery.

Critical Incident Study

The critical incident study technique is employed to enhance customer care. This technique is considered to be simple and cost effective for implementation. A critical incident is a defining, special, problematic, undesirable, or even sensitive incident which impacts the customer perception of the quality of a service.

The merit of critical incident study is that it enables both the customers and the service firms to try out something upscale as it indicates the service perception of the customers. Both the high and low points of service delivery are assessed by critical incidents.

Service providers gather details of critical incidents from the customers. In many instances, a mere recognition of customers' woes by the service providers results in their dissatisfaction melting away. Apart from the customers, the contact staff also may be asked to report critical incidents. The reasons for the faults need to be determined to prevent persistence of such incidents that cause lot of dissatisfaction.

The critical incident study results in:

a) *Service recovery* - The service delivery which missed the target the first time can be rectified during the second round, thereby instilling confidence in the customers.

b) *Appeasing the customers* – In some cases it may be essential to offer compensation or appeasement services to the customers for the difficulty they faced during the critical incident of service encounters. This may include discount offers, repeat service offer, inclusion to a loyalty programme, or sometimes even monetary compensation.

Segmentation and Service Quality Improvement

Segmentation is a key method to comprehend the customers' needs better and then offer products or services that meet their needs. If due to wrong perception about the customer segment, unsuitable services are offered to them, the service quality will become low.

Management of Service Quality

The goals of service quality management can be construed as:

1. *Setting Appropriate Standards*

It is important for a service firm to set the right standards of service quality, or else, the quality assurance process will deliver unwarranted services of poor quality. Many service organisations are party to a trade or professional association and abide by the code of conduct of the association.

Thus they conform to the minimum standards that are expected to be delivered. Service companies also set standards based on the market research survey conducted on customer segments as well as personnel. Market research techniques for external marketing depend on the feedback gathered from the customers. Internal market research can be performed through focus group interviews and employee surveys.

Bench marking (explained in this lesson) is another technique of setting standards. Benchmarks can be created for various components of the firms' operations Benchmark is often applied in those areas which are marked to be the strength of the organisation that can be focused upon to outwit the competitors in the market place.

2. *Performing Quality Service*

   After setting quality standards the next concern of service providers is to infuse the standards in the service delivery process and strive to achieve the set standards.. This process will be productive only when there is absolute commitment from all levels of the service firm. A fine internal marketing programme can achieve effective implementation of service quality. Proper communication and training of employees are key components of internal marketing.

   According to Philip Kotler, the requisites for successful implementation of service quality programmes are as follows:

   ➢ All levels of the organisation should focus on the customer.

   ➢ Management should display utmost commitment to quality control.

   ➢ Internal communication system must be excellent.

   ➢ Methods must in place for reviewing the performance of staff.

   ➢ Adequate feedback system to be designed for both external and internal customers.

The Total Quality Management (TQM) addresses customers' needs on a consistent basis.

3. *Evaluating Service Quality*

   The service quality programme that is applied must be constantly monitored and evaluated using various tools and techniques. The actual service implementation is assessed for the purpose of quality control to figure out the areas where improvements are required. This also improves the service design process so that quality is achieved in sync with customer needs. The monitoring systems include:

a) **Statistical tools**: Some form of measurement is required to evaluate the performance of service. It is possible to evaluate certain aspects of service such as check in time for a hotel, airlines departure regularity, etc. In such cases, the measurement can be done using simple statistical tools and indicate the results in the form of a chart.

b) **Quality function deployment**: This is a systematic approach to translate customer needs into service development requirement. The focus here is on customer wants and how their demands can be delivered. QFD converts the customer requirements into technical language for each stage of marketing, service planning and development, design, and operations. It is developed to achieve competitive advantage in all parameters like quality, cost, and delivery. The tools can be used to analyse and

keep tab of both internal quality functions and customer satisfaction against the set standards.

c) **Internal performance review:** This is carried out by service companies to measure the success of their planning and judge the quality of service. Sales graphs, internal reporting data, customer loyalty levels, etc. are key indicators to quality outcome. Feedback from quality monitoring divisions, performance indicators and job appraisal offer vital information to monitor quality. The internal market research need to fine- tune the internal delivery system so that the staff is considered as internal customers. Employees' perception of the firms offerings are assessed to find out potential quality gaps.

d) **Customer satisfaction review**. An important technique of customer satisfaction review is the follow-up survey. Individual customers or customer groups may be asked to rate both the specific elements of the service and their overall perception about the service experience Focus group discussions and motivational surveys, and other market research techniques can be used to obtain feedback from customers about their satisfaction level of the service quality.

Transaction-based survey enables the service provider to assess current performance and its impact on customer satisfaction with the contact staff, whom customers had faced during service encounters. Thus, service quality performance can be linked with a certain reward system.

Monitoring customer complaints promptly is important to find out the trends in complaints and to chalk out measures to overcome them. Complaint handling mechanism has to be quick and efficient. Customer feedback has to be reverted back through proper channels to ensure that effective actions are taken.

'Mystery shoppers' is the case of a professional market researcher interacting with the contact personnel doing the role of a customer. They consider the ability and willingness of the employees to perform their service and draw findings. They also assess the physical evidence and the overall conduct and personality of the staff. This is to ensure that the service quality programmes are performed effectively and the desired standards are being achieved.

Service Quality Improvement

Improving service quality is a difficult exercise. Service quality is considered to be an elusive concept. Any service organization must work towards achieving service quality

in a consistent and integrated fashion. The perspectives analysed by service providers in improving service quality are:

1. *Customer Perception*

Quality is determined by the customers based on their service experiences. Service organisations need to possess a never ending commitment to enhance quality of service delivery. Though the customers do not perceive quality on common dimensions, the firms must identify and process customer perception. Basic service quality determinants that impact customer satisfaction have to be identified and addressed.

2. *Production Quality and Quality of Service Delivery are Important*

Customers perceive the quality on both operational and technical outcomes. The planning and designing of service quality must be consistently present from the production to the delivery to the end-user. This implies systematic and effective marketing. Service providers need to have a watch on the market place, build relationships with customers, and effectively manage the organisational and operational changes.

3. *Allround Contribution to Customer Perceived Quality*

All levels of staff in front-line and back-office are responsible for the ultimate customer perceived quality. The organisational policy needs to define the roles and responsibilities of its personnel to ensure quality.

The quality of service delivery has to be monitored at all levels. It is important for the service organisation to imbibe a quality culture to motivate its staff. They must work to build a unique service culture through ways such as corporate mission, policies compensation and rewards for staff.

4. *External Marketing for Service Quality*

The service experiences of customers play a pivotal role in customer perceived quality. Service organisations must take extreme care to fulfill the promise made to the customers.

External marketing communication need to be designed and integrated with service quality considerations. Customers should be made aware of the service delivery process through effective campaigns.

5. *The Physical Evidence Setting*

The physical evidence of service firm accounts for the tangible aspect of service quality. Thus, it becomes imperative for the service provider to meticulously manage the physical setting. The customers develop a positive or negative impression of the firm and form a certain service expectation by evaluating physical and human evidence. In short good physical evidence creates an image in the minds of customers in favour of the service organisation. The layout and design of service site and personality of the staff reflect the quality of the service company.

6. *Promotion of Internal Marketing*

The front-line staff plays a crucial role as enablers of customer service. Service firms need to motivate and instill dynamism in the employees, especially the contact staff to deliver quality service. HRM is a vital factor to ensure the success of the service organisation similar to building loyalty and commitment of customers. It is important for the service firm to build loyalty and dedication of its employees. The work environment can be increased to ensure job satisfaction. Employees must be consistently given training and they need to be empowered to deliver quality service promptly and completely.

7. *Maintaining Standards*

The service management goals can be translated into service quality by effectively standardizing various functions. In the context of customized service, establishing standards become difficult. Complementing technology with human interaction can avoid the heterogeneity of service quality.

Furthermore, the service company achieves productivity, efficiency and speed by adopting relevant technology. However, it is important for the service firm to determine which part of its service requires human touch and which part requires automation.

The Fourteen Point Programme recommended by Edward Deming for improving service quality are as follows:

1. Create constancy of purpose for improvements of product and service. Management must stop the preoccupation solely with the next quarter and build for the future. Innovation in all areas of business should be expected.

2. Adopt the new philosophy. Refuse to allow commonly accepted poor levels of work, delays, and lax service.

3. Cease dependence on mass inspection. Inspection comes too late and is costly. Instead, focus on improving the process.

4. End the practice of awarding business on price tag alone. Purchasing should buy on the basis of statistical evidence of quality, not on the basis of price. Reduce the number of vendors, and reward high-quality suppliers with long-term contracts.

5. Constantly and forever improve the system of production and service. Search continually for problems in the system, and seek ways for improvement. Waste must be reduced and quality improved in every business activity, front-office and back-office.

6. Institute modern methods of training on the job. Restructure training to define acceptable levels to work. Use statistical methods to evaluate training.

7. Institute modern methods of supervising. Focus supervision on helping workers do a better job. Provide the tools and techniques to promote pride in one's work.

8. Drive out fear. Eliminate fear by encouraging communication of problems and expression of ideas.

9. Break down barriers between departments. Encourage problem solving through teamwork and the use of quality control circles.

10. Eliminate numerical goals for the workforce. Goals, slogans, and posters cajoling workers to increase productivity should be eliminated. Such exhortations cause worker resentment because most of the necessary changes are outside of their control.

11. Eliminate work standards and numerical quotas. Production quotas focus on quantity, and they guarantee poor quality in their attainment. Quality goals such as acceptable percentage of defective items do not motivate workers toward improvement. Use, statistical methods for continuing improvement of quality and productivity.

12. Remove barriers that hinder the hourly workers. Workers need feedback on the quality of their work. All barriers to pride in one's work must be removed.

13. Institute a vigorous program of education and training. Because of change in technology and turnover of personnel, all employees need continual training and retraining. All training must include basic statistical techniques.

14. Create a structure in top management that will push every day on the above 13 points. Clearly define management's permanent commitment to continuous improvement in quality and productivity.

Summary

The focus of this lesson is on the methods used for measuring and improving service quality. The concepts linked to the measurement of services are dealt with. A variety of methods and approaches have been used to measure service quality, processes, and outcomes. The key means for measuring service quality as discussed in this lesson are ISO 9000, Six Sigma, TQM, Fishbone diagram Pareto Chart, Blueprinting, QFD Malcolm Baldrige Model, Critical Incident study Mystery shopping, statistical tools, internal performance review, customer satisfaction review, transaction-based survey SERVQUAL, SERVPERF, observation studies, focus group discussions, and in-depth interviews.

This lesson also analyses the soft and hard measures identified in service quality. The benefits of measuring service quality are also examined. Various standards of service delivery namely customer expected standards, bench marking, handling of complaints, and segmentation are featured in this lesson.

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Lesson 5. 4 - Strategies to Resolve Service Quality Gaps

Learning Objectives

➢ To understand the methods to offset service quality gaps.

➢ To explain appropriate tools and strategies to be used with respect to the gaps.

➢ To study the key factors leading to service provider gaps.

Introduction

"The gaps in the customer experience can be bridged through diligent attention from management of service firms".

Service quality improvement certainly promotes the economic competitiveness of service businesses. Service quality can be related to service personnel (expertise and qualifications of staff), service potential (infrastructure), service processes (speed in service delivery), and service outcome (customer satisfaction). The factors that determine customer expectations of service are word – of – mouth recommendations, personal requirements, and past experiences.

When the customer expectation regarding service offerings and the perception of service experiences are not equal, there arise gaps. The ten determinants which may influence the surfacing of a gap were described by Parasuraman, Zeithaml and Berry (discussed in Lesson – 2). They are Competence, Courtesy, Credibility, Security, Access, Communication, Knowing the Customer, Responsiveness, Reliability, and Tangibles.

There are subjective and objective processes involved in measuring service quality. What is being assessed relates to some aspect of customer satisfaction. Generally, Service design and service delivery can be improved by the providers to achieve a greater level of service quality. In the service process, changes can be made to the design of service products and amenities. In service delivery, changes can be made to the service delivery process, the ambience in which service delivery takes place and the interface between the customer and the service provider. The techniques that may be employed to make the changes are discussed in Lesson. 3

Strategies relate the service business to its environment and define the way it wants to adapt and compete. Service quality strategy puts the service organisation in perspective as regards its competitive scope and its concept of quality, through selection of, and positioning on, the basic quality dimensions it wants to complete with (e.g. service products and empathy). Service quality strategy is a set of guidelines that provides concrete inputs for all levels of management in the service business. It should be properly communicated, should be meaningful for employees and should bring about a brand identity for the organisation. The inability or unwillingness to communicate a coherent service quality strategy will result in a serious service quality gap.

Gap analysis generally refers to the process of studying the differences between standards and the delivery of those standards. Documenting the gap between customer expectations and actual customer experiences will be immensely useful for the service provider to define satisfaction and also to identify the areas for improvement. After the gap is defined, strategies can be developed that will take the organisation from its present state to a desired future state.

The importance of gap analysis to service firms is that gaps between customer expectations and customer experiences will lead to customer dissatisfaction. Therefore, measuring gap is the first step in enhancing customer satisfaction. By exceeding customer satisfaction, service businesses delight customers and thus competitive advantages can be achieved. Determining service quality gap is the technique used to know whether firms exceed or fall below customer expectations.

Customer Satisfaction leads to regular buying patterns which lead to customer loyalty. Customer loyalty in turn leads to improved brand image and increased profit margin. Consequently, understanding customer expectations and perceptions about actual experiences is crucial to a service company's performance. As such, gap analysis is used as a tool to close the gap between expectations and actuality, thereby promoting customer satisfaction.

In order to develop comprehensive understanding of the nature of service quality and how it is achieved in a service business, a service quality model was developed by Parasuraman, Berry, and Zeithaml in 1985, The model explained that customer perceptions about service quality was influenced by a series of five distinct gaps where there may be differences between expectations of service levels and perceptions of service customers. This gap model is widely used by many service organisations to measure the gap between expected and perceived service quality through a customer feedback system.

One of the key ways to differentiate the service organisation is to consistently deliver greater quality service. Service firms must strive to meet or exceed customers' service quality perceptions. The service management process encompasses setting appropriate standards, organising and performing quality service, identifying service quality gaps, implementing strategies to resolve service quality gaps, and evaluating and monitoring service quality.

As discussed in the previous lesson, the measures to improve service quality includes – assessing customer requirements, making service control a continuous and consistent process, TQM, Six Sigma, ISO 9000, Malcolm Baldrige Model, SERVQUAL, SERVPERF, Service Blueprinting, Fishbone diagram, etc. This lesson discusses the strategies which may be applied to close the service quality gaps.

How to offset Service quality gaps?

Service firms need to interact with customers through efficient market research methods. The front–line staff must be trained to actively listen to customers, understand their problems, and find ways to address and solve them. Listening and understanding customers through market research involve formal and informal methods of gathering information and obtaining feedback, surveys, critical incident studies, and complaint solicitation.

The strategies of service companies must be tuned so as to retain the customers and derive ways and means to strengthen the relationship and build goodwill.

It is very important for service companies to identify dissatisfied customers and empathise with their problems and perform trouble shooting to solve the issues quickly and efficiently. Moreover, firms in service industry must find out customer requirements or expectations and deliver quality service.

For achieving consistency in delivery of service, quality service firms must monitor and track service performance. As benchmarking enhances 'service value', the service provider needs to assess the overall performance of the firm as compared to the competitors. Individual employees and teams should be duly encouraged with rewards and incentives. Equally important for service businesses are the tools and methodologies to monitor changing expectations in the industry environment.

Key factors leading to Service Provider Gaps

Gap 1	Gap 3

Gap 1

Inadequate marketing research orientation
- Insufficient marketing research
- Research not focused on service quality
- Inadequate use of market research

Lack of upward communication
- Lack of interaction between management and customers
- Insufficient communication between contact employees and managers
- Too many layers between contact personnel and top management

Insufficient relationship focus
- Lack of market segmentation
- Focus on transactions rather than relationships
- Focus on new customers rather than relationship customers

Gap 2

Absence of customer-driven standards
- Lack of customer –driven service standards
- Absence of process management to focus on customer requirements
- Absence of formal process for setting service quality goals

Inadequate service leadership
- Perception of infeasibility
- Inadequate management commitment

Gap 3

Deficiencies in human resource policies
- Ineffective recruitment
- Role ambiguity and role conflict
- Poor employee technology job fit
- Inappropriate evaluation and compensation systems
- Lack of empowerment, perceived control, and team work.

Failure to match supply and demand
- Failure to smooth peaks and valleys of demand
- Inappropriate customer mix
- Overreliance on price to smooth demand

Customers not fulfilling roles
- Customers lacking knowledge of their roles and responsibilities
- Customers negatively impacting each other

Gap 4

Ineffective management of customer expectations
- Failure to manage customer expectations through all forms of communication
- Failure to educate customers adequately

Overpromising
- Overpromising in advertising
- Overpromising in personal selling
- Overpromising through physical evidence cues

Poor service design	Inadequate horizontal communications
➢ Unsystematic new service development process ➢ Vague, undefined service designs ➢ Failure to connect service design to service positioning	➢ Insufficient communication between sales and operations ➢ Insufficient communication between advertising and operations ➢ Differences in policies and procedures across branches or units.

Source: Zeithaml & Bitner, 1996, Services Marketing

According to Zeithaml & Bitner, for bridging service quality gaps and focusing on quality service delivery, the strategic actions start with understanding customer expectations (provider gap), establishing customer-driven standards to address key priorities (provider gap 2), and finally aligning service performance with customer – driven standards (provider gap 3). Provider gap 4 relate to matching promises with service performance.

Strategies Which Impact Customer Perceptions

- ➢ Best performance to ensure customer satisfaction in all service episodes
- ➢ Effective service recovery plans
- ➢ Adaptability and Flexibility in service delivery
- ➢ Positive and spontaneous service performance
- ➢ Orienting contact- personnel to effectively deal with troubled customers
- ➢ Ensuring quality dimensions during service encounters
- ➢ Enhance physical evidence of service businesses
- ➢ Establishing pro-active communication
- ➢ Use positive customer experiences to build company image
- ➢ Price as an USP to improve customer perceptions of value and quality

Strategies for Increased Customer Involvement

- ➢ Defining customers' roles
- ➢ Urge customers for self-service
- ➢ Motivate customers to link-up with other customers
- ➢ Customers responsibility for promoting the organisation
- ➢ Appreciating and rewarding customers for their contribution

➢ Educating customers to perform productively for a win-win situation

➢ Avoidance of negative service encounters

➢ Recognition and management of elements of the customer mix

Prescriptions for Closing Service Gaps

Gap 1	**Prescription: Learn What Customers Expect**
	➢ Understand customer expectations through research, complaint analysis, customer panels, etc. ➢ Increase direct interactions between managers and customers to improve understanding. ➢ Improve upward communication from contact personnel to management. ➢ Turn information and insights into action
Gap 2	**Prescription: Establish The Right Service Quality Standards**
	➢ Ensure that top management displays ongoing commitment to quality as defined by customers. ➢ Set, communicate, and reinforce customer – oriented service standards for all work units. ➢ Train managers in the skills needed to lead employees to deliver quality service. ➢ Become receptive to new ways of doing business that overcome barriers to delivering quality service. ➢ Standardise repetition work tasks to ensure consistency and reliability by substituting hard technology for human contact and improving work methods (soft technology). ➢ Establish clear service quality goals that are challenging, realising and explicitly designed to meet customer expectations. ➢ Clarify which job tasks have the biggest impact on quality and should receive the highest priority. ➢ Ensure that employees understand and accept goals and priorities. ➢ Measure performance and provide regular feedback. ➢ Reward managers and employees for attaining quality goals.

Gap 3	**Prescription: Ensure That Service Performance Meets Standards**
	➤ Clarify employee roles.
	➤ Ensure that all employees understand how their jobs contribute to customer satisfaction.
	➤ Match employees to jobs by selecting for the abilities and skills needed to perform each job well.
	➤ Provide employees with the technical training needed to perform their assigned tasks effectively.
	➤ Develop innovative recruitment and retention methods to attract the best people and build loyalty.
	➤ Enhance performance by selecting the most appropriate and reliable technology and equipment
	➤ Teach employees about customer expectations, perceptions, and problems.
	➤ Train employees in interpersonal skills, especially for dealing with customers under stressful conditions.
	➤ Eliminate role conflict among employees by involving them in the process of setting standards.
	➤ Train employees in priority setting and time management.
	➤ Measure employee performance and tie compensation and recognition to delivery of quality service.
	➤ Development reward systems that are meaningful, timely, simple, accurate, and fair.
	➤ Empower managers and employees in the field by pushing decision- making power down the organization; allow them greater discretion in the methods they use to reach goals.
	➤ Ensure that employees working at internal support jobs provide good service to customer contact personnel.
	➤ Build teamwork so that employees work well together, and use team rewards as incentives.
	➤ Treat customers as partial employees; clarify their roles in service delivery; and train and motivate them to perform well in their roles as co producers.

Gap 4	**Prescription: Ensure That Communication Promises Are Realistic**
	➢ Seek inputs from operations personnel when new advertising programs are being created.
	➢ Develop advertising that features real employees performing their jobs.
	➢ Allow service providers to preview advertisements before customers are exposed to them.
	➢ Get sales staff to involve operations staff in face-to-face meetings with customers. Development internal, educational, motivational, and advertising campaigns to strengthen links among marketing, operations, and human resource departments.
	➢ Ensure that consistent standards of service are delivered across multiple locations.
	➢ Ensure that advertising content accurately reflects those service characteristics that are most important to customers in their encounters with the organisation.
	➢ Manage customers expectations by letting them know what is and is not possible-and the reasons why.
	➢ Identify and explain uncontrollable reasons for shortcomings in service performance.
	➢ Offer customers different levels of service at different prices, explaining the distinctions.

Source: Valarie A Zeithaml, A. Parasuraman, and Leonard L. Berry, Delivering Quality Service: Balancing Customer Perceptions and Expectations, The Free Press, New York, 1990

Gap 5- The Perceptions Gap

Keep customers informed during service delivery and debrief them at the end, and sometimes offer tangible evidence.

Gap 6- The Interpretation Gap

Pretest all advertising, brochures, and website contents before they are published. Service personnel who communicate with customers directly should ensure through questioning that customers understand their presentations exactly.

The Service Quality Model of Gronroos

Christian Gronroos (1990) suggested twelve excellent customer service episodes which are required to offset the adverse effect of one poorly performed episode. He has

re- defined the determinants which may influence the presence of a gap in service quality. According to Gronroos, the expectations of the customers depend on five determinants which are:

(a) Market communication,

(b) Image,

(c) Word of mouth,

(d) Customer needs and,

(e) Customer learning.

Gronroos states that customer experience depends on the technical quality of service (a 'what' type outcome) and the functional quality of service (a 'how' or 'process' type outcome), and with these aspects being filtered through the company image (the 'who' element)

Gaps Identified and the Proposed Strategies to Reduce the Gaps

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                                    ┌──────────────────────────────────────────────────┐
                                    │            Auditing customer experience          │
                                    ├──────────────────────────────────────────────────┤
                                    │  Avoidance of ambiguity of conflict of employee roles │
                                    ├──────────────────────────────────────────────────┤
                                    │          Hiring right employees for right jobs   │
                                    ├──────────────────────────────────────────────────┤
                                    │  Designing technological solutions to suit employee roles │
  ┌──────────────────┐             ├──────────────────────────────────────────────────┤
  │     Service       │            │  Introducing appropriate evaluation and reward systems │
  │ Performance Gap   │───────────▶├──────────────────────────────────────────────────┤
  └──────────────────┘             │              Empowering employees                │
           │                       ├──────────────────────────────────────────────────┤
           │                       │      Encouraging teamwork in service delivery    │
           │                       ├──────────────────────────────────────────────────┤
           │                       │           Rapport with intermediaries            │
           │                       ├──────────────────────────────────────────────────┤
           │                       │             Matching supply & demand             │
           ▼                       ├──────────────────────────────────────────────────┤
  ┌──────────────────┐             │ Fullfilling promises made to customers about service delivery │
  │ Communication Gap │───────────▶├──────────────────────────────────────────────────┤
  └──────────────────┘             │  Enhancing employee to employee communication    │
           │                       └──────────────────────────────────────────────────┘
           │                       ┌──────────────────────────────────────────────────┐
           │                       │  Tactical actions in marketing, sales, operations and │
           │                       │                 communications                   │
           │                       ├──────────────────────────────────────────────────┤
           │                       │                 Called Gap 5                     │
           │                       ├──────────────────────────────────────────────────┤
           │                       │                  Build trust                     │
           ▼                       ├──────────────────────────────────────────────────┤
  ┌──────────────────────┐         │                 Customer focus                   │
  │ Customer Satisfaction Gap │───▶├──────────────────────────────────────────────────┤
  └──────────────────────┘         │               Customer retention                 │
                                    ├──────────────────────────────────────────────────┤
                                    │           Speedy redressal of problems           │
                                    ├──────────────────────────────────────────────────┤
                                    │           Productive service delivery            │
                                    ├──────────────────────────────────────────────────┤
                                    │         Greater involvement of customers         │
                                    ├──────────────────────────────────────────────────┤
                                    │ Transactional surveys after delivering the customer │
                                    │  experience for service firm to measure customer │
                                    │            perceptions of service                │
                                    ├──────────────────────────────────────────────────┤
                                    │              Using survey software               │
                                    ├──────────────────────────────────────────────────┤
                                    │             Build brand identity                 │
                                    ├──────────────────────────────────────────────────┤
                                    │               Reinforce quality                  │
                                    ├──────────────────────────────────────────────────┤
                                    │               Increase loyalty                   │
                                    └──────────────────────────────────────────────────┘
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Summary

The link between service quality and customer satisfaction is very profound. Service quality may be defined as the ability of the service firms to meet or exceed customer needs. Various gap models expounded by expert researchers have brought to light the areas of failure which is identified as the difference between customer expectations of service and the perceptions of customers about the service experiences. Seven major service gaps have been discussed in the earlier lessons. The service quality dimensions of tangibles, reliability, responsiveness, empathy, and assurance are important considerations in the case of services.

This lesson deals with the strategies that can be best adopted by service businesses to close the service gaps. The strength of the gap methodology is that it provides definitive insights and ideal solutions that may be applied across different service sectors. But it is extremely difficult for service providers to identify specific service quality failures that may occur particularly in their businesses. Therefore, it is important that each firm must formulate its own customised approach to ensure that service quality is achieved during all episodes of service delivery.

Self Assessment Questions

1. Explain the concerns regarding service quality gaps.
2. What is service quality?
3. Describe the facets of service quality.
4. Trace the history of service quality gaps model.
5. Explain the seven gaps of service quality model.
6. Discuss the factors influencing customer satisfaction.
7. Bring out the application of the results of gap assessment in service.
8. Describe the causes of service quality gaps.
9. Outline the benefits of service quality.
10. What are the ten determinants of service quality?
11. Discuss the variables involved in the five broad dimensions of service quality.
12. How do you classify service quality measurement?
13. Explain the reasons for considering measurement of service quality a difficult task.
14. Describe the soft and hard measures in service quality.
15. Explain the tools used to analyse and solve service quality problems.
16. Evaluate the benefits of measuring service quality.

17. Examine the standards of service delivery.

18. Explain the goals of service quality management.

19. Describe the methods for improving service quality.

20. Explain the Fourteen Point Programme recommended by Edward Deming for improving service quality.

21. What do you mean by mystery shopping?

22. What do you mean by service quality strategy?

23. Explain the advantages of gap analysis for service firms.

24. Describe the techniques used to offset service quality gaps.

25. Examine the key factors leading to service provider gaps.

26. What are the strategies which impact customer perceptions?

27. What are the strategies for increased customer involvement?

28. Explain the prescriptions for closing service gaps.

29. Illustrate the proposed strategies to reduce service quality gaps.

CASE STUDY

The Raintree Hotels: Facets of Service Quality and Customer Satisfaction

The Raintree Hotels located in Chennai is a premier brand promoted as eco-sensitive business hotels. The Raintree is a neo-concept in hospitality business which stands out for innovation and social sensitivity. This brand caters to both business and leisure travelers and is located in the central business district. Their commitment to conservation efforts is indeed laudable as the hotel strives to conserve natural resources and create awareness on the importance of sustainable development along with re-defining the meaning of eco-friendly travel. They believe in reduce, reuse, recycle, and repair – the 4R's connected with managing and maintaining the environment.

Understanding Customer Needs

The style of management of Raintree ensures enhancement of guests' experience. Service quality delivery is performed by setting new standards. It is located at the hub of business, auto, and manufacturing activities. The guest rooms and suites possess luxurious, modern look and feature gym access, an all inclusive business centre, and state-of-the-art restaurants and bars for casual business meetings. Moreover, they have health spa services and meeting and banquet facilities for up to 1000 guests. Some of the selected rooms have jacuzzi tubs and bamboo wood flooring that create a lush ambience.

Customer Defined Standards

Raintree has created a niche image by offering personalised service and sophisticated facilities. For business travelers, reliable and high speed internet and all- inclusive business center are set-up in the Raintree. The well-designed banquet halls are equipped with excellent technology and individually tailored to suit the needs of corporate and business travelers. The business centre at the hotel offers meeting facilities and modern secretarial service.

Service Performance

Raintree provides exquisite rooftop restaurants, bars, and continental dining that serve multi-cuisine delicacies. The employees are well trained and committed to spread the eco-sensitive philosophy, raise awareness about saving energy and water and advocate for environmental responsibility. This is performed without compromising on the customer experience. The Raintree strikes a balance between luxury and conservation. A glance through the guest reviews suggests that the service at Raintree is top class and all staff members are amazingly welcoming and friendly. The personal touch and caring attitude makes many customers feel at home. To top it all, what touched many guests was the supreme professionalism in service delivery.

Questions

1. Bring out the initiatives of the Raintree to ensure customer satisfaction.
2. Elucidate on the dimensions of service quality in the Raintree hotel.
3. Describe customer defined standards with respect to the Raintree.

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