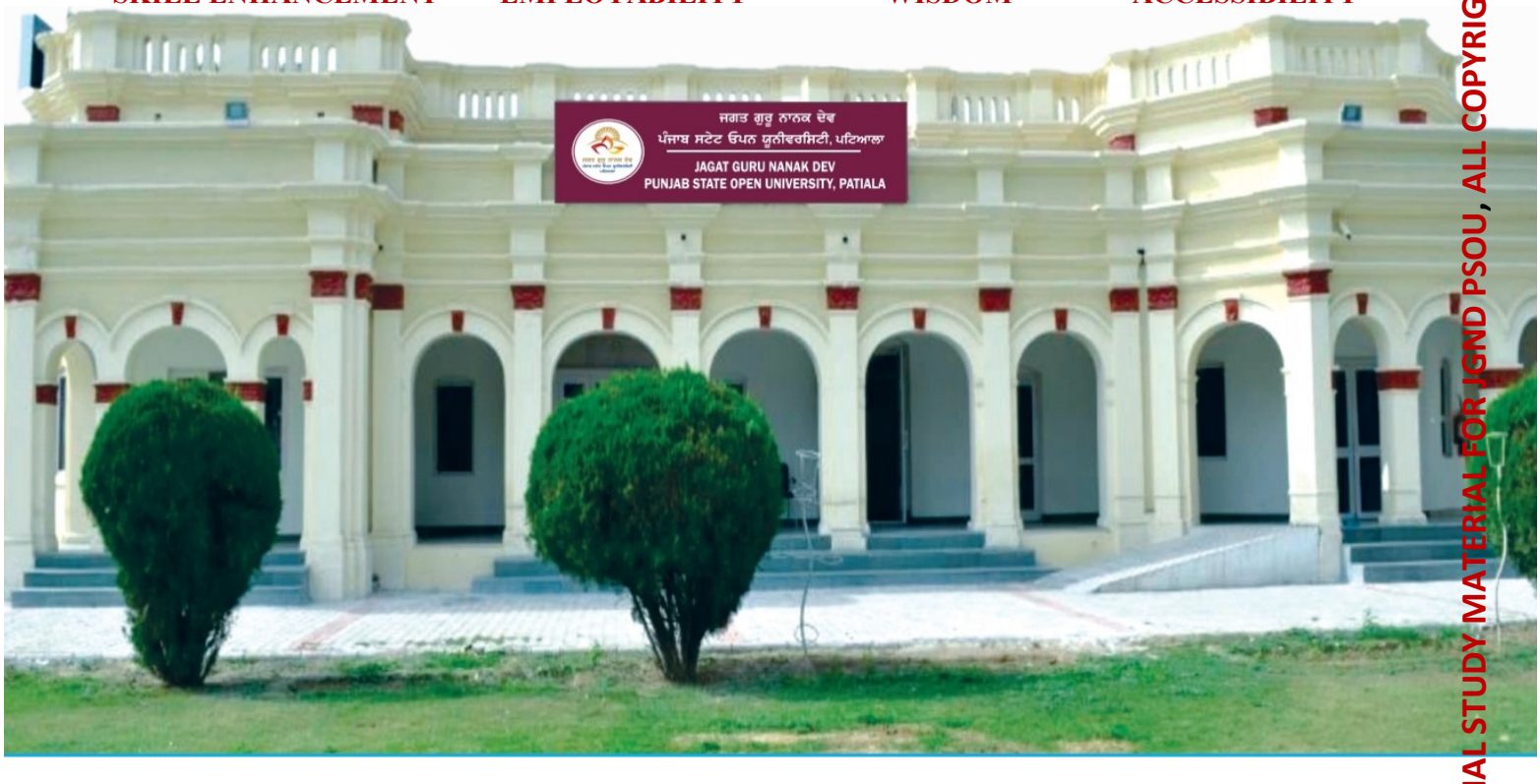
JAGAT GURU NANAK DEV
PUNJAB STATE OPEN UNIVERSITY, PATIALA

(Established by Act No. 19 of 2019 of the Legislature of State of Punjab)

The Motto of the University

(SEWA)

SKILL ENHANCEMENT EMPLOYABILITY WISDOM ACCESSIBILITY



Certificate/Diploma Course
in
Retail and Sales Management

DRS5 –SERVICE MARKETING

ADDRESS: C/28, THE LOWER MALL, PATIALA-147001

WEBSITE: www.psou.ac.in

SELF-INSTRUCTIONAL STUDY MATERIAL FOR JGND PSOU, ALL COPYRIGHTS WITH JGND PSOU, PATIALA

JAGAT GURU NANAK DEV

PUNJAB STATE OPEN UNIVERSITY PATIALA

(Established by Act No.19 of 2019 of Legislature of the State of Punjab)

COURSE COORDINATOR AND EDITOR:

Dr. Sulakshna (Associate Professor)
School of Business Management and Commerce
JGND PSOU, Patiala

JAGAT GURU NANAK DEV

PUNJAB STATE OPEN UNIVERSITY PATIALA

(Established by Act No.19 of 2019 of Legislature of the State of Punjab)

PREFACE

Jagat Guru Nanak Dev Punjab State Open University, Patiala was established in Decembas 2019 by Act 19 of the Legislature of State of Punjab. It is the first and only Open Universit of the State, entrusted with the responsibility of making higher education accessible to all especially to those sections of society who do not have the means, time or opportunity to pursue regular education.

In keeping with the nature of an Open University, this University provides a flexible education system to suit every need. The time given to complete a programme is double the duration of a regular mode programme. Well-designed study material has been prepared in consultation with experts in their respective fields.

The University offers programmes which have been designed to provide relevant, skill-based and employability-enhancing education. The study material provided in this booklet is self instructional, with self-assessment exercises, and recommendations for further readings. The syllabus has been divided in sections, and provided as units for simplification.

The Learner Support Centres/Study Centres are located in the Government and Government aided colleges of Punjab, to enable students to make use of reading facilities, and for curriculum-based counselling and practicals. We, at the University, welcome you to be a part of this institution of knowledge.

Dean Academic Affairs

CERTIFICATE/ DIPLOMA COURSE IN
RETAIL AND SALES MANAGEMENT
DRS5 –SERVICE MARKETING

COURSE COORDINATOR AND EDITOR: DR. SULAKSHNA

SECTION A

UNIT NO.	UNIT NAME
UNIT 1	INTRODUCTION TO SERVICES MARKETING
UNIT 2	DEVELOPING SERVICE PRODUCTS AND PRICING
UNIT 3	SEGMENTATION, TARGETING AND POSITIONING
UNIT 4	MARKETING OF FINANCIAL SERVICES

SECTION B

UNIT NO.	UNIT NAME
UNIT 5	Service Design and Service Delivery
UNIT 6	Service Quality issues and Models on Service Quality

DRS5 –SERVICE MARKETING

Max. Marks: 100
External: 70
Internal: 30
Pass: 40%
Credits: 6

SECTION A

Learning Objectives:

The course aims to achieve following objectives

1. To discuss challenges inherent in managing and delivering quality service.

2. To apply services marketing mix to different service industry sectors.

3. To design service delivery system for improving quality and productivity.

Unit -1 -Introduction to Services Marketing

Introduction to Services Marketing, Understanding Service Characteristics: More Intangible than Tangible, Simultaneous Production and Consumption, Less Standardised and Uniform, Perishability. Product versus Services, Classification of Services, Services Marketing Environment.

Unit -2 - Developing Service Products and Pricing

Planning and Creating Service Products—Designing Service Concepts—Defining Core and Supplementary Products -New Service Development—New Service Categories, Reengineering Service Processes, Physical Goods as a Source of New Service Ideas - Pricing— Objectives, Strategies, Fairness and Ethical Issues.

Unit -3 –Segmentation, Targeting and Positioning

STP Strategy for Services: Introduction, need for segmentation of services, bases of segmentation services, segmentation strategies in service marketing, need for targeting and positioning of services, positioning strategies for services, positioning Through Product/Service Delivery Strategies, Positioning Through Pricing Strategies, Positioning Through Distribution Strategies, positioning through Sales Promotion and Advertising, Service Differentiation Strategies.

Unit -4 – Marketing of Financial Services

Banking Industry—Introduction , Insight into Indian Banking Scenario - Classification of Banking Industry - Marketing of Banking Products—Meaning, Need and Marketing Approaches to Banking - Issues and Strategies for Enhancement of Banking Services— Modern Ways to Market Banking Services -Introduction to Insurance Services—Life Insurance and General Insurance in India,

Insurance Companies in India -Marketing of Insurance—Role of Insurance Advisor -Mutual Funds Marketing—Concept, Scope and

Elements of Mutual Fund Marketing - Product, Pricing, Distribution and Promotion of Mutual Funds - Housing Finance—Issues and Policy Prospects, Private Sector Initiatives.

SECTION B

Unit -5 –Service Design and Service Delivery

Introduction, Service delivery process, service encounters and Moments of Truth, employee role in service delivery, service employee- criteria, importance and emotional approach, role of service provider, intermediaries involved in in Service Process and Service Delivery.

Unit -6–Service Quality issues and Models on Service Quality

Service Quality Issues, Service Quality Models: Gap Model of Service Quality, The Service Triangle Management Model, Service Triangle Marketing Model, SERVQUAL Model Dimensions of Service Quality and Importance of Quality

Suggested Readings:

1. Services Marketing, Zeithaml, Bitner, Gremler & Pandit, TMH Publication.

2. Marketing of Services, Hoffman & Bateson, Cengage Learnings.

3. Services Marketing, Rao, Pearson Education.

4. Services Marketing, Concepts & Cases, Bhattacharjee, Excel Books

5. Service Management, Operations, Strategy, Information Technology, Fitzsimmons & Fitzsimmons, McGraw Hill.

Certificate/Diploma Course in
Retail and Sales Management
GC-CRS5 –SERVICE MARKETING

Max. Marks: 100
External: 70
Internal: 30
Pass: 40%
Credits: 6

Learning Objectives:

The course aims to achieve following objectives

1. To discuss challenges inherent in managing and delivering quality service.
2. To apply services marketing mix to different service industry sectors.
3. To design service delivery system for improving quality and productivity.

SECTION A

Unit -1 -Introduction to Services Marketing: Introduction to Services Marketing, Understanding Service Characteristics: More Intangible than Tangible, Simultaneous Production and Consumption, Less Standardised and Uniform, Perishability. Product versus Services, Classification of Services, Services Marketing Environment.

Unit -2 - Developing Service Products and Pricing Planning and Creating Service Products—Designing Service Concepts—Defining Core and Supplementary Products -New Service Development—New Service Categories, Reengineering Service Processes, Physical Goods as a Source of New Service Ideas - Pricing— Objectives, Strategies, Fairness and Ethical Issues.

Unit -3 –Segmentation, Targeting and Positioning - STP Strategy for Services: Introduction, need for segmentation of services, bases of segmentation services, segmentation strategies in service marketing, need for targeting and positioning of services, positioning strategies for services, positioning Through Product/Service Delivery Strategies, Positioning Through Pricing Strategies, Positioning Through Distribution Strategies, positioning through Sales Promotion and Advertising, Service Differentiation Strategies.

Unit -4 - Marketing of Financial Services, Banking Industry—Introduction , Insight into Indian Banking Scenario - Classification of Banking Industry - Marketing of Banking Products—Meaning,

Need and Marketing Approaches to Banking - Issues and Strategies for Enhancement of Banking Services— Modern Ways to Market Banking Services -Introduction to Insurance Services—Life Insurance and General Insurance in India, Insurance Companies in India -Marketing of Insurance—Role of Insurance Advisor -Mutual Funds Marketing—Concept, Scope and Elements of Mutual Fund Marketing - Product, Pricing , Distribution and Promotion of Mutual Funds - Housing Finance—Issues and Policy Prospects, Private Sector Initiatives.

SECTION B

Unit -5 –Service Design and Service Delivery: Introduction, Service delivery process, service encounters and Moments of Truth, employee role in service delivery, service employee- criteria, importance and emotional approach, role of service provider, intermediaries involved in Service Process and Service Delivery.

Unit -6–Service Quality issues and Models on Service Quality

Service Quality Issues, Service Quality Models: Gap Model of Service Quality, The Service Triangle Management Model, Service Triangle Marketing Model, SERVQUAL Model Dimensions of Service Quality and Importance of Quality

Suggested Readings:

1. Services Marketing, Zeithaml, Bitner, Gremler& Pandit, TMH Publication.
2. Marketing of Services, Hoffman & Bateson, Cengage Learnings.
3. Services Marketing, Rao, Pearson Education.
4. Services Marketing, Concepts & Cases, Bhattacharjee, Excel Books
5. Service Management, Operations, Strategy, Information Technology, Fitzsimmons & Fitzsimmons, McGraw Hill.

Certificate/Diploma Course in
Retail and Sales Management

UNIT - 1 INTRODUCTION TO SERVICE MARKETING

STRUCTURE

1.0 Learning Objectives

1.1 Introduction to service marketing

1.2 Understanding service characterstics

- 1.2.1 More intangible than tangible
- 1.2.2 Simultaneous production and consumption
- 1.2.3 Less standardised and uniform
- 1.2.4 Perishability
- 1.2.5 Product vs services

1.3 Classification of services

1.4 Services Marketing Environment

1.5 Unit End Questions

1.6 References

1.0 Learning Objectives

After studying this unit, you will be able to:

- Outline the basics of service marketing
- Summarize the service marketing characteristics
- Summarize the classification of services.
- Describe the service marketing environment

1.1 Introduction to service marketing

Service-based companies enable customers to purchase the skills or services of their employees, such as a plumber, a lawyer or consultants.

Since services are intangible and differ from physical products you can purchase, the marketing strategies advertisers use to promote them also differ. If you work in advertising, then understanding services marketing may help you increase sales, generate more leads and improve brand awareness.

What is services marketing?

Services marketing is a form of marketing businesses that provide a service to their customers use to increase brand awareness and sales. Unlike product marketing, services marketing focuses on advertising intangible transactions that provide value to customers.

Advertisers use effective service marketing strategies to build trust with their customers and show them how their service can benefit them. Businesses may base their services marketing strategies on the promotion of ideas, benefits and promises to help them sell their services.

For example, a company that provides wellness coaching may promote the benefits of adopting a healthier lifestyle, the promise that they can help their customers achieve their fitness goals and the idea that incorporating an effective wellness routine is easier with the help of a certified coach.

Services Marketing Examples

- **Healthcare industry**

Doctors, nurses, surgeons, and other people who work in hospitals are great examples they sell their health services by seeing and taking care of their patients.

- **Hospitality industry**

The hospitality industry is made up of places like hotels and restaurants that serve food, rent rooms, give massages, and do other things for their customers.

- **Professionals' services**

Accountants, lawyers, teachers, writers, masons, carpenters, chefs, electricians, and plumbers are all examples of service-based jobs. Depending on the job, they may offer more than one service to their clients.

Importance of Service Marketing

Because services can't be seen or touched, marketing them is a difficult but very important job. Let's understand why.

1. A key differentiator:

As products become more similar, the services that go along with them are becoming a key differentiator

in the minds of consumers. For example, Pizza Hut and Domino's both serve pizza, but they are different from each other more because of the quality of their service than because of the pizza itself. So, marketers can use the services they offer to set themselves apart from the competition and draw in customers.

2. Importance of relationships:

Relationships are a key part of marketing services, so it's important to keep them in good shape. Since the product cannot be seen or touched, a lot of the customer's decision to buy will depend on how much he trusts the seller. So, it's important to listen to what the customer wants, meet those needs with the right service, and build a long-term relationship that will lead to repeat sales and good word of mouth.

3. Customer retention:

In today's highly competitive market, where many companies compete for a small number of customers, keeping customers is even more important than getting new ones. Since services are usually made and used at the same time, the customer is involved in the process by taking his needs and feedback into account. So, they give customers more options for customization based on their needs, making them happier and more likely to stick with the company.

Types of Service Marketing

In general, there are three kinds of service marketing one should learn about them to better understand the idea as a whole.

1. External Service Marketing

The first type of service marketing is called ―external service marketing. This is when a company promotes its services to customers in a setting outside of the company. This type suggests that services be advertised using tried-and-true methods like price, product, and purchasers. External service marketing is all about promoting services in the outside world (between the company and its customers) so that they are availed of and used well.

2. Internal Service Marketing

Second, there is internal service marketing. It is used to promote service within the company (company employees). This means that the service is promoted internally so that employees know where it is and can spread the word better. Since employees are an important part of the marketing chain, internal service marketing pays more attention to them than to customers. A company's employees need to know a lot about

the service so that they can spread the word and help the company promote the service on a large scale.

3. Interactive Service Marketing

Maybe technical service is also a very important part that needs the third type of service marketing, which is called ―Interactive Service Marketing. Service promotion happens between the employees and the customers in this case (employees-customers). Interactive marketing is a type in which the employees talk to customers to promote the services of their company, as the name suggests. For example, the hotel chain Taj Hotels wants to advertise its services to the right people. Here is a short list of the different kinds of service marketing it will use to reach its goal. Firstly, the company will make ads that show what services the chain of hotels has to offer its customers (External). Then, the company will promote its services within itself to make sure that its employees are well- informed about what it has to offer so that they can help promote and sell the services (Internally). Lastly, the company's employees will talk to customers when they use the service.This means that the employees will have to serve the customers in a variety of administrative and quality ways (Interactive).

Who uses services marketing?

Companies that provide a service use services marketing strategy to reach potential customers. Popular examples of service-based industries that use this form of marketing include:

- **Telecommunications**
- **Health and wellness**
- **Financial**
- **Tourism, leisure and entertainment**
- **Transportation**
- **Hospitality**
- **Consulting**
- **Design, marketing and sales**
- **Management**
- **Education**
- **Trade industries**
- **Restaurants**

This type of marketing may include both business-to-consumer (B2C) and business-to-business (B2B)

advertisements, depending on the service. Marketing and sales professionals who work in these industries can use services marketing strategies to increase brand awareness, generate leads and acquire new customers.

How services marketing differs from product marketing

While companies use both services marketing and product marketing to acquire new customers, marketing services differ from marketing products in several ways. Some of the key differences between these two types of marketing strategies include

1. Tangible products vs. intangible services

Tangible products may be easier to market than intangible services because advertisers can easily show them and demonstrate how they work. It can also be easier for customers to assign value to physical items. Since services are intangible, advertisers often focus on marketing the people who provide the service and building relationships with potential customers. This can help build trust and generate sales.

2. Customization

Unlike products that are often designed one way and sold to customers as is, businesses can customize their services to meet the unique needs of each customer.

Example: A company that offers digital marketing services may customize which platforms it focuses on to fit the needs of each customer. As an advertiser, your services marketing strategy can highlight this by focusing on how you can adapt a service to better suit a wide range of different customers.

3. Ownership

When a customer purchases a product, they own it. This means they can continue to use the product for as long as they see fit and resell the product if they desire to do so. When a customer purchases a service, the business still retains the employees, skills and capabilities that provided the service. While product marketing may focus on why a customer wants to own an item, services marketing focuses on building the brand and the personality of the service provider.

Example: A business that provides personal counseling services may highlight how empathetic, professional and well-educated their staff is to encourage potential clients to schedule a session with them.

4. Trust

While customers who are unhappy with a product may return it, customers who are unhappy with a service cannot return it after they have used it. This is why services marketing focuses heavily on building trust with their customers and continuing to provide an excellent customer experience at every interaction with their audience. Service-based businesses also want to ensure their customers are happy so they continue to purchase services from them.

Example: A hair salon that hires personable and talented hairdressers can increase the number of repeat

customers and referrals they receive because customers trust them to provide excellent service.

5. Time

Usually, businesses provide services to customers at a specific time or for a specific duration. After this, customers must renew the service agreement to continue receiving the service. However, a customer may purchase a product once and continue using it indefinitely. Because of this, services marketing typically focuses on selling subscriptions, encouraging referrals and retaining customers instead of selling customers a product one time.

Example: A hotel might offer customers who have recently booked a stay with them a free night to use on a future reservation. This can encourage customers to return to the hotel during their next vacation.

6. Market size

The market size for service-based businesses may be smaller than the market size for product-based businesses. This is because most businesses can ship products to customers globally, while many businesses provide services only to a specific geographic region.

Example: A landscaping company may only serve customers within a 50-mile radius of their business location. As a result, advertisers who market services may place a heavier emphasis on developing strong relationships with their customers to earn referrals and repeat business. They may also focus on promoting upgrades to increase the amount of revenue they can collect per customer.

Tips for creating effective services marketing strategies

Here are some tips to help you create an effective services marketing strategy for your next campaign:

- **Incentivize potential customers.** One strategy to market your services is to provide customers with an extra incentive. Consider offering new customers a one-time discount or a gift as part of a special promotion.
- **Implement a referral program.** Another great way to market your services is to encourage your current customers to tell their friends, family members and colleagues about your business. You can offer customers a discount, upgrade or another incentive for every person they refer that signs up for your service.
- **Nurture existing customer relationships.** Continue to check in with your current customers regularly to ensure they are happy with your service and identify any additional needs they may have. You can reach out to them via email, phone call, survey or by providing exclusive discounts to current customers.
- **Embrace digital marketing.** In addition to creating a professional website to promote your services, consider creating business pages and profiles on popular social media platforms. This can make it easier for potential customers to connect with you and learn more about the services you provide.

- **Get involved with your community.** Get involved by attending trade shows, networking events and volunteer opportunities. This can help you showcase your values as a service-based business, meet potential customers and increase referrals. It can also help you form valuable partnerships with other businesses in your area.
- **Ask for customer testimonials.** Incorporating customer testimonials into your services marketing strategy can help you generate trust with your target audience. Customer testimonials can be effective because they show people how you have helped other customers who may have similar needs.
- **Showcase your awards and badges.** If you've received any service verification awards or badges that set your business apart from your competitors, consider incorporating them into your services marketing strategy.
- **Focus on the process.** While your customers are interested in the result your service can provide, the way you offer your service can also provide value. Let potential customers know about the unique features you offer such as flexibility, responsiveness, personalized services or payment plans.
- **Highlight your people.** Show the people behind your services through employee advocacy. Include employees in your marketing materials. You can use professional photos of your team, video interviews or quotes from your employees.

1.2 Understanding Service Characteristics

What is a service?

While this is a simple question, it is more complex than you might think. Is it the coffee you get served in your favorite coffee bar? Is it the repair service for your smartphone? Or the fact that you have mobile data nearly everywhere? A service can be much more than that. Services comprise a very broad range of activities in a growing service-based economy. Let's have a look at the definition of services and the various qualities and characteristics of services. We will explain what distinguishes a service from a product or good and how to recognize a service. Read on to learn more about the definition of services as well as the unique characteristics of services.

Definition of Service

What is the definition of service? Simply put, services are a special form of product which consists of activities, benefits or satisfactions offered for sale. These are intangible and do not result in the ownership of anything. Services are often contrasted with products. In the most common understanding, a product is

tangible, meaning it can be touched or felt. A service on the other side would be intangible. However, this distinction is not fully correct. What we should compare a service to is labelled a good. While good is something tangible, a service is not. At the same time, a service is a special form of a product – while good is another form.

Importance of Services for the World Economy

Without a doubt, services have grown dramatically in recent years. As the share of services is growing rapidly in the world economy, one thing is clear: Services are becoming more and more important. Today, they make up already more than 65% of the gross world product. In developed countries, the service sector contributes more to economic growth than any other sector.

However, services can mean so many things, that the range of service industries is huge. Also, you can imagine that not only companies offer services, but also governments and non-profit organizations.
However, all services have certain characteristics in common. Therefore, let's now have a look at the unique qualities and characteristics of services.

Characteristics of Services

In the following, we will go into the most relevant qualities of services. These characteristics apply universally to any service. They make services unique and different from goods.
The key characteristics of services are:

- Lack of ownership
- Intangibility
- Inseparability
- Variability
- Perishability
- User participation



Fig 1.1 Characteristics of Services

- **Intangibility**

When thinking about the characteristics of services, intangibility may come to your mind first. Service intangibility means that services cannot be seen, tasted, felt, heard or smelled before they are bought. You cannot try them as you would maybe take a car on a test drive first. For instance, airline passengers have nothing but a ticket and a promise that they will arrive at a certain time at a certain destination. But there is nothing that can be touched.

However, intangibility does not mean that there is nothing tangible surrounding the actual service delivery. In many cases, you will see tangible elements that go with the service itself. Tangible dimensions may include for instance the place (e.g., a barber shop), equipment (e.g., the scissors), and communication material (e.g., flyers promoting the barbershop). These tangible dimensions are part of the experience the customer buys. Also, they help to prove the service quality.

Let's stick with the barbershop example for a second. While you primarily go there to buy a haircut, you get much more than that. The whole customer experience includes a physical barbershop, which must look professional and stylish to attract you and convince you of the service quality. The physical setting will also determine whether you go there in the first place, based on its location, cleanliness and look.
Once the physical setting has convinced you of the service quality and great experience you will likely get, you might have a look at all the professional equipment. There will be lots of it – scissors, trimmer machines, hair dryers, and of course comfy chairs, basins and so on. This equipment ideally convinces you of a professional and efficient haircut. Finally, let's consider the communication materials that might have brought you here. A professional-looking flyer, or a billboard ad – without it, you might not have gone there for the haircut.

As you can see, intangibility is a tricky concept. While intangibility is one of the key characteristics of services, they are seldom completely intangible. For most services, you will recognize that tangible

elements are part of the experience. The core service, however, is in all cases intangible.

- **Inseparability**

Inseparability may not come to mind first when thinking about the characteristics of services, but it is an important part of every service. Inseparability means that services are produced and consumed at the same time. This also entails that services cannot be separated from their providers. Contrary to services, physical goods are produced, then stored, later sold, and even later consumed. Services are first sold, then produced and consumed at the same time.

A product can, after production, be taken away from the producer. However, service is produced at or near the point of purchase. For instance, when visiting a restaurant, you order your meal. But you also order the waiting and delivery of the meal, the service provided by the waiter, etc. All these elements, including the providers, are part of the service and therefore inseparable. In services marketing, a service provider is a product.

- **Variability**

Variability is another key characteristic of services. It refers to the fact that the quality of services can vary greatly, depending on who provides them and when, where and how. Because of the labour-intensive nature of services, there is a great deal of difference in the quality of service provided by various providers, or even by the same providers at different times. Let's consider an example, a big hotel chain. As a renowned hotel chain, it may have a reputation for providing better service than others. However, the service quality will never be the same. One employee may be very cheerful and provide front desk services particularly efficiently. Another employee might just have a bad day and be a bit slower and maybe even unpleasant. But even the quality of services provided by a single hotel employee is not always the same. For instance, energy levels differ depending on the time of day.

As a service company's goal is to provide consistently high-quality services at all times, service variability is a challenge. Luckily, it can be managed in several ways. Firstly, employees should be selected by their ability to provide consistent service quality. Next, they should be trained carefully and regularly to avoid drops in service quality. In addition, you may consider introducing incentives to reward employees for delivering consistent service quality. For instance, you could ask customers to rate their satisfaction with the service or implement complaint systems.

- **Perishability**

Perishability means that services cannot be stored for later sale or use. In other words, services cannot be inventoried. This is one of the most significant characteristics of services, since it may have a major impact on financial results. Doctors or dentists often charge patients for missed appointments because the service value has been foregone. The value existed only at that particular point and disappeared when the patient did not come.

When demand is steady, the perishability of services is not a major problem. However, in case of fluctuating demand, service firms can have difficult times. For this reason, transport companies own much more equipment than they would if demand were even throughout the day: the demand during rush hours needs to be served at that specific time, it cannot be served later or earlier. Consequently, service companies use various techniques for creating a better match between demand and supply. For instance, a key technique is called Demand Shifting. By charging different prices at different times, demand may be shifted from peak periods to off-peak periods. Next to off-peak pricing strategies, firms might consider non-peak promotions, complementary services, and reservation systems to shift demand to non-peak periods. On the supply side, companies can for instance hire part-time employees to serve peak demand. Of course, you could also simply expand capacity to serve demand during peak periods, although there is a limit to that.

- **User participation**

Consider the last service you used. Maybe it was a restaurant visit where you got great service. Or you have been watching your favorite TV show on a streaming platform. Whatever it was, you participated in the service.

User participation is one of the most important characteristics of services, even if it is often forgotten. Indeed, users participate in every service production. Even when the user is not required to be at a location where the service is performed, users participate in every service production. A service cannot be separated from its provider, but neither can it be separated from its user. This concept is closely related to the other characteristics of services we have discussed so far.

- **Lack of Ownership**

Lack of ownership is another key service characteristic. It refers to the fact that you cannot own and store a service like you can a product. This characteristic is strongly linked to several other characteristics of services, such as intangibility, perishability, and inseparability. The lack of ownership is so crucial to understanding services that we have mentioned it already. Remember the definition of services: Services are a special form of product which consists of activities, benefits or satisfactions offered for sale, which

is intangible and does not result in the ownership of anything. Due to the lack of ownership, it is required to market services in a different way than goods. The ownership of goods transfers with the sale, which also provides an opportunity for the buyer to resell the good.

This does not work for services. As a user, you just have access to the service. And, since, the service is perishable, once used by you, you cannot hand on the ownership of the service – there is no ownership. For example, you might book a hotel room or pay for using a swimming pool. However, after you have spent a night in the hotel or swum a few lanes in the pool, you don't ―own‖ anything – ownership rests with the providers.

Marketing the Qualities of Services Right through Service Marketing

With the growing spread and range of services, of course, also service marketing deserves a mention. Service marketing promotes the qualities of services that we have just discussed – the intangible benefits and offerings that a company offers to its target markets. Service marketing can focus on promoting a service as a stand-alone offering (think, for instance, of a pure service company such as Facebook, or your local barber shop). But service marketing can also promote complementary services to tangible products sold by the company.

As service marketing is concerned with the various qualities of services described above (intangibility, inseparability, variability, perishability, user participation, and lack of ownership), it needs to take an inherently different approach than marketing strategies for tangible goods. For this reason, there is a much greater focus on the people (who provide the service) and the process (which becomes much more important than the non-tangible outcome). We therefore often use the 7 P's of the service marketing mix rather than the standard 4 P's (product, price, place, promotion). The additional factors included here are people, process, and physical evidence – after all, nearly every service has some physical component to it.

Closing words

As you have seen, services are indeed special. The definition of services indicates that services can take many forms. Also, services have characteristics that make them unique – and they will become ever more important for the world economy. Therefore, it is crucial to have an understanding of what is meant when talking about services, but also of the many forms services can take.

1.2.1 More intangible than tangible

We can't handle or touch everything we buy. Intangible goods and services – like consulting services, software and downloadable music – are available everywhere and are commonly bought and sold.

However, selling intangible goods and services can be tricky because there's nothing for the customer to physically examine. We'll review essential strategies, and discuss what not to do when selling intangible goods and services to help you fine-tune your sales process and marketing plan.

The secret to selling intangible goods and services

Trust is essential when marketing and selling intangible products and services, such as business insurance or bitcoin. When there's nothing tangible to show customers, trust and integrity become the pillars that promote sales.

Your organization's credibility is built over time. Prospects favor companies with a broad user base characterized by customer loyalty. Loyalty represents the faith customers have in the organization because of previous positive interactions.

When purchasing an intangible product or service, the customer trusts the organization to make good on its promise and provide the agreed-upon offering. Everyone in your business must work together to uphold your customers' faith. Goodwill ensues when an organization works with integrity, and happy customers spread word-of-mouth recommendations that draw in even more clients.

How to sell intangible goods and services

While marketing and selling intangibles can be challenging, it's not impossible. By following specific strategies, your business will grow.

Here are some top best practices to follow for selling intangible goods and services:

- **Focus on personalized selling.** Explaining to prospective buyers how your product or service can positively impact their lives will increase its appeal. Your sales team should strive to address the needs of the target audience. Additionally, the sales pitch should be as personalized as possible.
- **Show the tangible benefits of using the product or service.** Although the offering itself is intangible, post-usage benefits are often tangible. Give prospects examples of success stories to build credibility. Success stories are one of the strongest tools in a salesperson's arsenal. Also, customize the sales pitch to include the prospect's problems, and place the product or service as a solution to those problems.
- **Offer comfort and advice to clients.** While a tangible product offers comfort by its mere presence, an intangible good or service can't do the same. Your organization's job is to provide comfort and reassurance to prospective customers by telling them about the benefits of using the intangible offering. An excellent example is the sale of life insurance policies. While the policies themselves are intangible, their effects are highly tangible. Address any specific issue or worries

the prospects have, and advise them on how the goods or service will benefit them.

- **Draw parallels between tangibles and intangibles.** Suppose you're selling digitized content like e-books. E-books are intangible; you don't have a physical book available to show the customer. Draw parallels between a tangible book and its digitized content. For instance, explain how online content will reach a wider audience more quickly with a simple download. The case is the same when selling software applications, online music and other intangibles.
- **Demonstrate how your offering works.** Use videos, audio files and pictures to show how your service or product works. The biggest reason customers fear investing in intangibles is that they often don't understand how they work. Resolve this issue by showing prospects how similar goods and services perform. For example, if you are marketing a premium massage service, show a video clip of a relaxing massage session. Seeing this tangible feature will help customers overcome their fear of the unknown.
- **Act responsibly toward stakeholders and the environment**. Apart from the provision of service, your organization's behaviour toward its stakeholders and its use of environmental resources impacts how customers will view your firm. Existing customers choose to stick with an organization that treats internal and external partners with respect. People also value environmentally conscious organizations with a sustainable business model. Prospective customers will also likely be drawn to such high-integrity companies.

Mistakes to avoid while marketing intangibles

When selling intangible goods and services, you'll want to stay clear of certain actions. These errors can kill sales and make it more challenging to attract consumers.

Here are some marketing mistakes to avoid:

- **Promoting an unclear vision.** If you aren't clear about the problems the product or service that you're selling solves, you won't be able to convey its need to consumers. Take the time to write out your vision, including what your product is and why it's essential.
- **Lacking a target market.** Not every product or service is for everyone. Develop a buyer's persona – sometimes called a consumer's avatar – to get a clear picture of who your product or service is for. Also, consider creating a customer journey map. When marketing, all your efforts should aim to attract your target market.
- **Missing a unique seller's proposition (USP). Y**ou need to help your consumers understand why your brand is better than the competition, and this often boils down to your unique seller's proposition. Without a USP, you're just another product in a sea of sales and marketing materials consumers receive regularly.

- **Providing trendy products.** While many intangible products and services are hot trends, you want to make your marketing efforts evergreen. This means you can show your consumer that your product or service has a long shelf life and isn't something just to use for the moment. However, stay informed of industry advancements to alter your product or service as needed to stay current.

Classification of services based on intangibility

There are objects in this world which cannot be tangibly quantified. For example - the number of algorithms it takes to execute your banking order correctly, or the value of your life which is forecasted by insurance agents. These services are classified based on intangibility.

a) **Services directed at people minds -** Services sold through influencing the creativity of humans are classified based on intangibility

b) Services directed at intangible assets - Banking, legal services, and insurance services are some of the services most difficult to price and quantify.

Tangible services definition

A tangible service is what companies grant clients that can be seen and touched. Clients can interact with it through the five senses. Clients can connect with it emotionally and feel it.

Tangible services means services that are delivered in physical form, such as hotel accommodation or transportation.

Based on Service Tangibility:

Here the degree of tangibility (the tangibility spectrum) has been taken into consideration with the same number of classes.

- **Highly Tangible-** The service includes physical products (highly tangible) for use during the contract period, like a cell phone or a house on rent.
- **Services Linked to Tangible Goods-** These are the guarantee or warranty periods, during which the sellers provide free or subsidized services to the customer, like machines, vehicles, gadgets, etc.
- **Tangible Goods Linked to Services-** Here some physical goods are given to the customer as part of a service, like food with a train/air ticket, hotel accommodation which includes morning breakfast, etc.
- **Highly Intangible-** Here, no products are offered as part of the services, like haircuts, body

massages, movies, etc.

1.2.2 Simultaneous production and consumption

Simultaneous Production and Consumption

Service products are consumed at the same time they are being produced. The tourist attraction is producing entertainment or pleasure at the same time it is being consumed. In contrast, goods products are produced, stored, and then consumed. A result of this characteristic is that the provider of the service is often present when consumption takes place. Dentists, hotel staff, hair stylists, and ballet dancers are all present when the product is used.

- **Little Standardisation**

Because service products are so closely related to the people providing the service, ensuring the same level of satisfaction every time is very difficult. Dentists have their bad days, not every baseball game is exciting, and the second vacation to Walt Disney World Resort may not be as wonderful as the first.

- **High Buyer Involvement**

With many service products, the purchaser may provide a great deal of input into the final form of the product. For example, if you wanted to go on a Caribbean cruise, you would visit a number of Web sites describing the various cruise locations, review the available options for cabin location and size, islands visited, food, entertainment, prices, and whether they accommodate children. Although the task would be very time consuming, you could, if you wanted, practically design every moment of your vacation.

It should be noted that the four characteristics associated with service products described above vary in intensity from product to product. In fact, service products are best treated as existing on a continuum,shown in the following figure.



When marketing a service, it's important to remember that (a) service products on the right side of the continuum (i.e., those with greater intangibility) are different from goods products on the left side of the

continuum, and (b) service products tend to require certain adjustments in their marketing strategy on account of these differences.

All pr0ducts, whether they are goods, services, blankets, diapers, or plate glass, possess peculiarities that require adjustments in the marketing effort. However, ―pure‖ goods products and ―pure‖ service products (i.e. those on the extreme ends of the continuum) tend to reflect characteristics and responses from customers that suggest different marketing strategies. Admittedly, offering an exceptional product at the right price, through the most accessible channels, promoted extensively and accurately, should work for any type of product.

1.2.3 Less standardized and uniform

• **Less standardized/Inseparability:** As there is no tangible product in the services, they are inconsistent and have to be exclusively performed by the service provider every time. Besides, different customers have different expectations, wants and demands. Therefore, the service providers should alter their offer to meet the customers' requirements as closely as possible. For example, beauty parlour services, etc.

• **Uniformity /Inseparability: T**he production and consumption of services are inseparable as they co-occur. For example, if we manufacture a television today, we can sell it at a later date. However, we cannot do the same with services, as they have to be consumed as and when they are produced. Even though the service providers can design a substitute for their services as per the requirements, customer interaction is an essential part of services.

Difference between the both

Inconsistency refers to the variability of the quality of the performance of the ppl who deliver services. Inseparability means that the consumer cannot distinguish the service provider from the service itself. Inventory refers to the need to have serviced production capability when there is service demand.

1.2.4 Perishability

Perishability is a characteristic of products and services that do not allow for the product or service to be stored for sale at a future date.

To understand perishability, think of perishable foods. Foods that have a short shelf life are said to be "perishable" since they will decay within a short amount of time.

Any products or services which cannot be stored are said to be "perishable". "Perishability" is important for businesses because it determines sale prices, inventory levels, and marketing strategies for a given product.

Businesses use custom tactics, such as dynamic pricing, to mitigate adverse impacts to their business from the perishability of their services.

What is Perishability?

Perishability is most commonly about a product, but can also be about services. Fruits and vegetables are considered perishable because they have a short shelf life and cannot be sold after a certain period. The time frame after they become ripe and before they rot is considered the optimal window to market and sell fruit. The entire product supply chain is designed to take advantage of this period. For example, wholesalers determine inventory levels and sale prices based on the time to perish for fruits and vegetables. Stores may run sales to clear out old inventory and even sell products at a loss to recoup part of their investment. The same principles can be applied to perishability in services. While hotel rooms and airline bookings do not rot with time, their utility can "perish" or become worthless, if it is not used in a certain timeframe.

If rooms remain unoccupied for long periods, then the hotel may run out of money to maintain them. Similarly, empty seats can spell doom for carriers in the airline industry. As was the case with products, perishability influences prices, inventory levels, and marketing strategies for products in services.

For example, hotels and airlines offer deep discounts when demand for their product is running low. Sites like TripAdvisor and Expedia offer cheap rates for last-minute booking of rooms and airline tickets to make sure that goods from their inventory are sold, instead of being marked up as losses. Conversely, during times of high demand and low supply, prices will run high and service providers may form alliances between themselves to increase supply. Operations at small businesses are also influenced by their perishability. Plumbers schedule their appointments several weeks in advance and charge cancellation fees to recoup some of their losses.

How Does Perishability Influence Services?

The main difference between the perishability of products and services is that the latter cannot be manufactured at will to meet demand. In other words, companies cannot plan for additional services to meet demand. Product manufacturing plants use detailed forecasts to plan for an inventory of tangible products. But perishability within the services industry is intangible, meaning it is not a physical product that can be measured and quantified. Hence, it is not possible to make accurate forecasts. Consider the case of a hotel in a seaside town. Physical constraints limit the number of its rooms.If there is excess demand for its product i.e., room service and accommodation, the hotel cannot manufacture additional rooms as supply. Instead, the hotel must plan to optimize its existing room capacity to meet varying periods of demand. A hotel is at capacity during summer when demand is at peak and tourists throng to

the beach. Crowds thin out in winter, however, and room occupancy is low. Even with the certainty of seasonal travel, a hotel can't make accurate demand forecasts due to a variety of reasons. For example, some tourists may cancel their reservations at the last minute. Others may shift reservation dates or choose to stay at a competitor. This uncertainty in the balancing of supply and demand affects the quality of service and overall costs. During times of peak demand, the quality of service may suffer if the hotel management does not plan for adequate staff to meet demand. At the same time, having excess staff on hand during lean winter months will inflate the costs of operation at the establishment. To minimize the effect of perishability on their inventory, firms often apply a pricing approach known as dynamic pricing or demand pricing. In this approach, service pricing varies based on certain factors, such as product demand or time to expiration. For example, an airline may slash prices for seats on its routes close to the flight date. The seats are perishable. They are worth nothing if they are empty after the flight takes off. Hotels may offer heavy discounts on their "perishable" rooms to ensure occupancy and revenue even during periods of low demand. The perishable nature of products, airline seats, and hotel rooms makes it necessary for firms to sell at a loss. Seasonal hiring is another strategy used by firms to contend with varying demands.During summer, the hotel may hire additional temporary workers to meet demand. Come winter, it might work with a skeletal staff to cut down on operational costs.

Perishability and Services Marketing

Perishability is one of the four characteristics of service marketing. The others are:

- **Intangibility**: The characteristic to evaluate a service using tangible evidence, such as providing an excellent experience inside their premises.
- **Inseparability**: The characteristic of providing the same level of quality to each customer.
- **Heterogeneity/Variability:** The characteristic of providing unique service for a mass-produced product.

1.2.5 Product vs services

The main difference between product and service is that products are tangible while services are intangible.

We all need different products and services to satisfy our needs and wants. In marketing, products and services are two closely related concepts. Products are things that have a physical existence; when we buy a product, we acquire an asset. Services, on the other hand, refer to transactions in which there is no transfer of physical goods from the seller to the buyer.

What is a Product

A product is an item for sale. Most importantly, it is a physical item that is tangible. We can sell, buy, store, and transport products. When the sale is complete, we can move the product, return it, or even replace it for another product. If you look around you, you'll see many products around you. Some examples of products include mobile phones, laptops, vehicles, furniture, and food items.

In manufacturing, the manufactures procure products as raw materials and sell their products as finished goods.

They make each and every product at a cost and sell it at a price. Moreover, the price of a product can vary depending on the quality, the marketing, and, the market

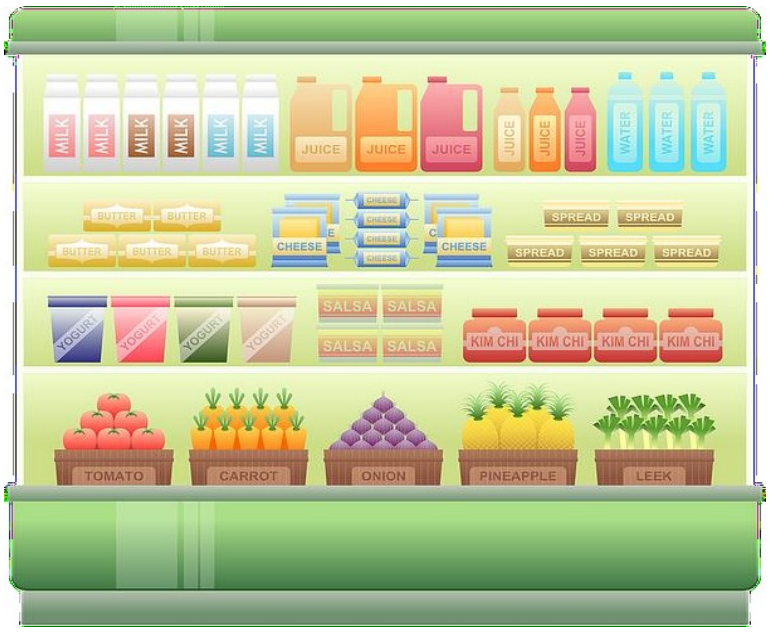


Fig 1.2 Display of the product that attracts customer

However, in marketing, we use the term product to refer to anything that we can sell regardless of whether it is a physical item or not. By this logic, sometimes we call flights, insurance policies, software services, etc. also as products.

What is a Service

We can define a service as a transaction that does not involve transfer of physical goods from the seller to the buyer. It is basically a work that a person/persons do for another individual. These are activities other people, companies, the government do for you. Education, health care, banking, insurance, and transportation are some examples of services. Services are intangible and non-physical, unlike goods, which have a physical existence. For example, when you a book a holiday, the booking agent is providing

you with a service; the booking itself is abstract – you cannot touch it, store it or transport it.

The government of a country also provides various public services for its citizens. For example, it ensures citizens' security via security services (army, police, paramedics, fire brigade, etc.) Healthcare, urban planning, waste management, and public broadcasting are some other government services.

Sometimes, it can be difficult to identify the difference between product and service as both are interconnected. For instance, in healthcare, both products and services are essential for a patient to get well. Here, products are drugs and medical and diagnostic devices, while services are the expertise of doctors and nurses.

Difference Between Product and Service

- **Definition**

Products are objects or systems made available for consumer use while services are transactions where no physical goods are transferred from the seller to the buyer

- **Tangibility**

While products are tangible, services are intangible.

- **Production**

Products are manufactured, stored, and transported while services cannot be manufactured, stored, or transported.

- **Examples**

Electronic devices, furniture, food items, and vehicles are some examples of products while cleaning, car repair, medical check-ups, haircuts, etc. are some examples of services.

- **Return**

Moreover, we can return or replace the products, but not so with services.

- **Inconsistency**

Products sold can be identical, but each delivery of a particular service is never exactly the same as the previous services or future services.

- **Conclusion**

Products are objects or systems made available for consumer use while services are transactions

where no physical goods are transferred from the seller to the buyer. The main difference between product and service is that products are tangible while services are intangible

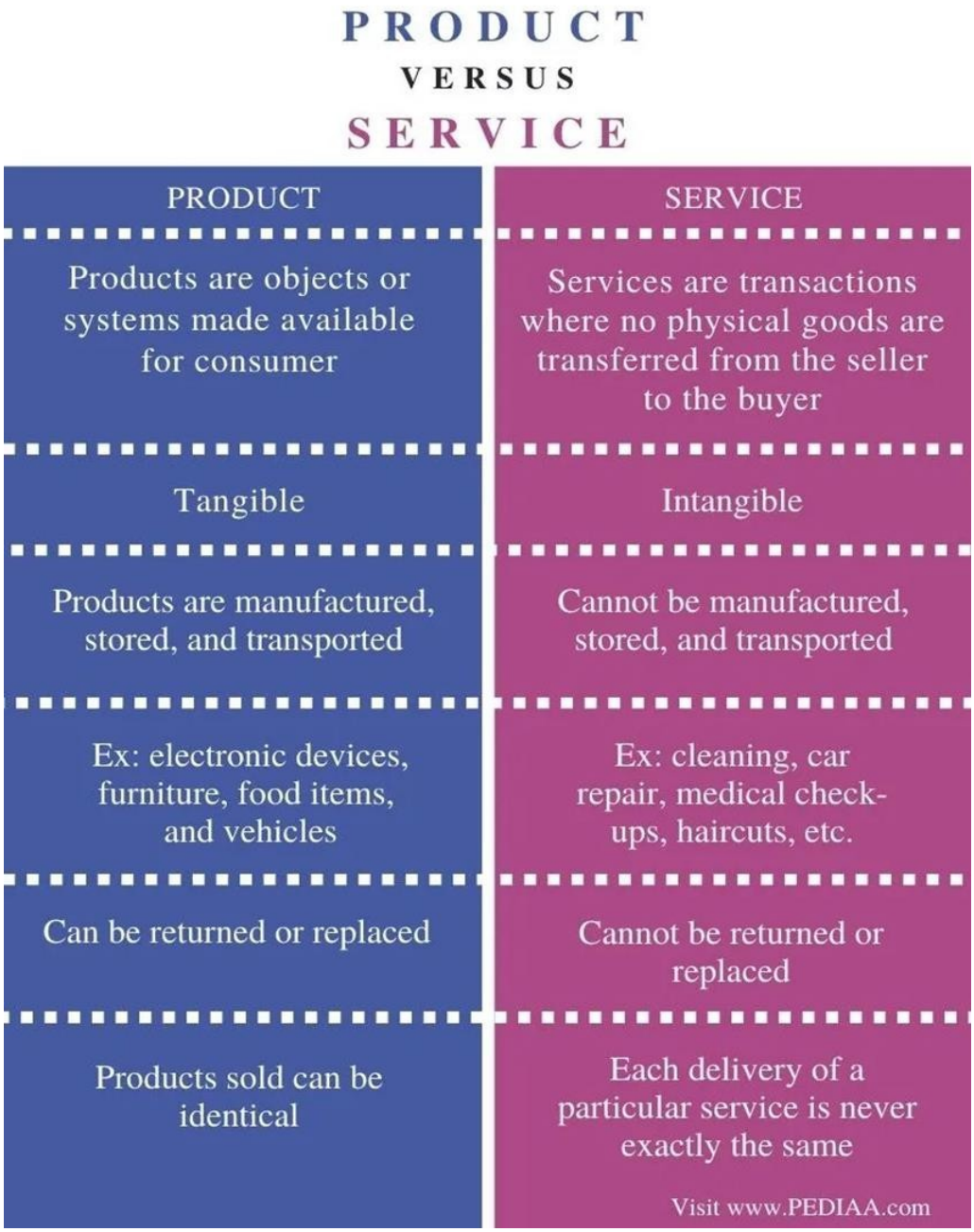


Fig 1.3 DIFFERENCE BETWEEN PRODUCT AND SERVICES

1.3 Classification of Services

In order to be able to make a clear and relevant classification of services, we would first need to understand the concept of the word itself. Services usually refer to processes and not physical products.

To understand more, read this article on the difference between goods and services. Some services may include people whereas other services (like online services) may include objects which are managed by people.

Examples of services include people can be hair salons, education, theatre, restaurants, and public transportation. On the other hand, services that include objects include repairs and maintenance, dry cleaning, banking, legal services, insurance, etc. The service processes can be either manual or mechanized or both. It is possible to carry out a classification of services based on two general dimensions such as what is being processed, whether is it a person or an object, and how is it being processed. In other words, what is the nature of the process (tangible or intangible actions)?

In terms of people processing activities, the level of involvement of the people can vary significantly. Managers must think about processes/outputs in terms of what happens to customers and what is being created. For pricing this category of services, the non-financial costs, time mental effort as well as fear and pain level must be identified. Having your computer broken and taking it to a repair facility is one example of service included in this category. Customers are less physically involved in this category of services and usually, there is no real need for them to enter the service once they requested the service, explained the problem and pay the respective service.

Classification of services can be done based on two points. These two points or factors are further subdivided into 2 further variables. All in all, service classification considers four types of people or objects.

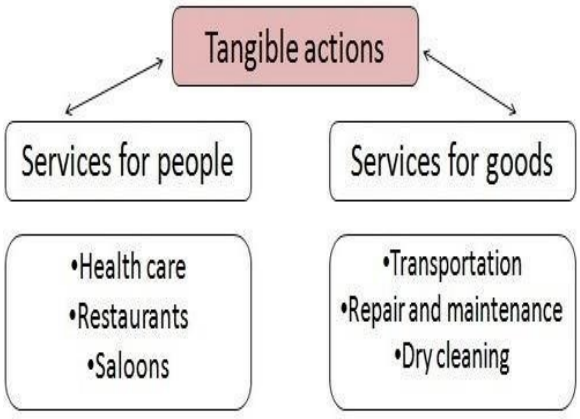


Fig 1.4 Tangible actions

1) **Classification of service based on tangible action**

Wherever people or products are involved directly, the service classification can be done based on

tangibility.

a) Services for people – Like Health care, restaurants and saloons, where the service is delivered by people to people.

b) Services for goods – Like transportation, repair and maintenance and others. Where services are given by people for objects or goods.

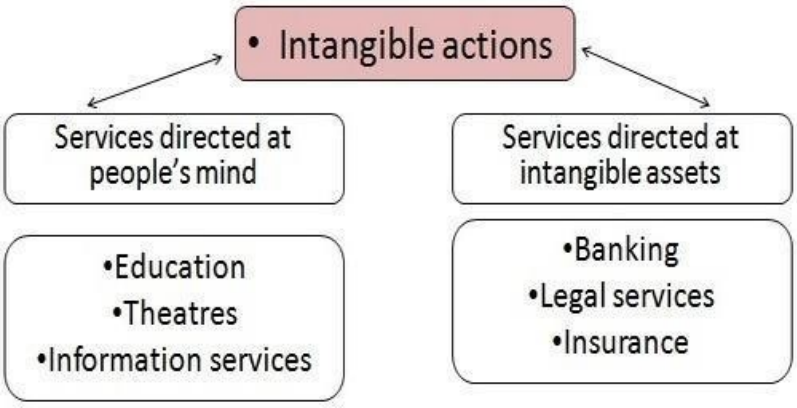


Fig 1.5 INTANGIBLE ACTIONS

2) Classification of services based on intangibility

There are objects in this world which cannot be tangibly quantified. For example – the number of algorithms it takes to execute your banking order correctly, or the value of your life which is forecasted by insurance agents. These services are classified on the basis of intangibility.

a) **Services directed at people's mind** – Services sold through influencing the creativity of humans are classified on the basis of intangibility.

b) **Services directed at intangible assets –** Banking, legal services, and insurance services are some of the services most difficult to price and quantify.

The most intangible form of service output is represented by information processing. The customer's involvement in this type is service is not required. Generally, customers have a personal desire to meet face to face but there is no actual need in terms of the operational process. Consultancy services can be an example of this type of services where the relationship can be built or sustained on trust or telephone contact. However, it is more indicated to have a face-to-face relationship in order to fully understand the needs of the customer. A more general classification of services based on the type of function that is

provided through them can be as follows:

- **Business services**
- **Communication services**
- **Construction and related engineering services**
- **Distribution services**
- **Educational services**
- **Environmental services**
- **Financial services**
- **Health-related and social services**
- **Tourism and travel-related services**
- **Recreational, cultural, and sporting services**
- **Transport services**
- **Other services not included elsewhere**

1.4 Services marketing environment

The service marketing environment refers to all internal and external factors, which directly or indirectly influence the organization's decisions related to marketing activities. Internal factors are within the control of an organization; whereas, external factors do not fall within its control. The external factors include government, technological, economic, social, and competitive forces; whereas, an organization's strengths, weaknesses, and competencies form the part of internal factors. Marketers try to predict the changes, which might take place in future, by monitoring the marketing environment. These changes may create threats and opportunities for the business. With these changes, marketers continue to modify their strategies and plans.

- **Features of Marketing Environment**

1. Specific and General Forces

It refers to different forces that affect the marketing environment. Specific forces include those forces, which directly affect the activities of the organization. Examples of specific forces are customers and investors. General forces are those forces, which indirectly affect the organization. Examples of general forces are social, political, legal, and technological factors.

2. Complexity

It implies that a marketing environment includes several factors, conditions, and influences.
The interaction among all these elements makes the marketing environment complex in nature.

3. Vibrancy

Vibrancy implies the dynamic nature of the marketing environment. A large number of forces outline the marketing environment, which does not remain stable and changes over time. Marketers may have the ability to control some of the forces; however, they fail to control all the forces. However, understanding the vibrant nature of the marketing environment may give an opportunity to marketers to gain an edge over competitors.

4. Uncertainty

It implies that market forces are unpredictable. Every marketer tries to predict market forces to make strategies and update their plans.

It may be difficult to predict some of the changes, which occur frequently. For example, customer tastes for clothes change frequently.

Thus, the fashion industry suffers great uncertainty. The fashion may live for a few days or maybe years.

5. Relativity

It explains the reasons for differences in demand in different countries. The product demand of any particular industry, organization, or product may vary depending on the country, region, or culture. For example, sarees are the traditional dress of women in India, thus, it is always in demand. However, in any other Western country, the demand for saree may be zero.

Types of Marketing Environment

The sale of an organization depends on its marketing activities, which in turn depends on the marketing environment. The marketing environment consists of forces that are beyond the control of an organization but influences its marketing activities.

The marketing environment is dynamic in nature. Therefore, an organization needs to keep itself updated to modify its marketing activities as per the requirement of the marketing environment.

Any change in the marketing environment brings threats and opportunities for the organization.
An analysis of these changes is essential for the survival of the organization in the long run.

A marketing environment mostly comprises the following types of environments:

- **Micro Environment**
- **Macro Environment**

The discussion of these environments is given below:

1 Micro Environment

Micro environment refers to the environment, which is closely linked to the organization, and directly affects organizational activities. It can be divided into supply-side and demand-side environments. The supply side environment includes the suppliers, marketing intermediaries, and competitors who offer raw materials or supply products. On the other hand, the demand side environment includes customers who consume

products.

Let us discuss the microenvironment forces in the following points:

(i) Suppliers

It provides raw materials to produce goods and services. Suppliers can influence the profit of an organization because the price of raw materials determines the final price of the product.

Organizations need to monitor suppliers regularly to know the supply shortages and changes in the price of inputs.

(ii) Marketing Intermediaries

It helps organizations in establishing a link with customers. They help in promoting, selling, and distributing products.

Marketing intermediaries include the following:

- **Resellers**: It purchases the products from the organizations and sells them to the customers. Examples of resellers are wholesalers and retailers.
- **Distribution Centres:** These help organizations store goods. A warehouse is an example of a distribution centre.
- **Marketing Agencies:** It promotes the organization's products by making the customers aware of

the benefits of products. An advertising agency is an example of a marketing agency.

- **Financial Intermediaries:** It provides finance for business transactions. Examples of financial intermediaries are Banks, credit organizations, and insurance organizations.

(iii) Customers

Customers buy the product of the organization for final consumption. The main goal of an organization is customer satisfaction. The organization undertakes research and development activities to analyze the needs of customers and manufacture products according to those needs.

(iv) Competitors

It helps an organization to differentiate its product to maintain its position in the market.

Competition refers to a situation where various organizations offer similar products and try to gain market share by adopting different marketing strategies.

2. Macro Environment

The macro-environment involves a set of environmental factors that is beyond the control of an organization. These factors influence organizational activities to a significant extent.

The macro environment is subject to constant change. The changes in the macro environment bring opportunities and threats to an organization.

(i) Demographic Environment

Demographic environment is the scientific study of the human population in terms of elements, such as age, gender, education, occupation, income, and location. It also includes the increasing role of women and technology. These elements are also called demographic variables. Before marketing a product, a marketer collects information to find a suitable market for the

product.

The demographic environment is responsible for the variation in the tastes and preferences and buying patterns of individuals. The changes in the demographic environment persuade an organization to modify marketing strategies to address the altering needs of customers.

(ii) Economic Environment

The economic environment affects the organization's cost structure and customers' purchasing power. The purchasing power of a customer depends on the current income, prices of the product, savings, and credit

availability.

The factors economic environment is as follows:

- **Inflation**: It influences the customers' demand for different products. For example, higher petrol prices lead to a fall in demand for cars.
- **Interest Rates:** It determines the borrowing activities of the organization.

  For example, an increase in interest rates for loans may lead organizations to cut their important activities.
- **Unemployment**: It leads to a no-income state, which affects the purchasing power of an individual.
- **Customer Income**: It regulates the buying behaviour of a customer. The change in the customer's income leads to changed spending patterns for the products, such as food and clothing.
- **Monetary and Fiscal Policy**: It affects all organizations. The monetary policy stabilizes the economy by controlling the interest rates and money supply in an economy; whereas, fiscal policy regulates the government spending in various areas by collecting the revenue from the citizens by taxing their income.

(iii) Natural Environment

The natural environment consists of natural resources, which are needed as raw materials to manufacture products by the organization. Marketing activities affect these natural resources, such as the depletion of ozone layer due to the use of chemicals. The corrosion of the natural environment is increasing day by day and is becoming a global problem.

(iv) Socio-Cultural Environment

The sociocultural environment comprises forces, such as society's basic values, attitudes, perceptions, and behaviour. These forces help in determining what type of products customers prefer, what influences the purchase attitude or decision, which brand they prefer, and at what time they buy the products. The socio-cultural environment explains the characteristics of the society in which the organization exists. The analysis of the sociocultural environment helps an organization in identifying the threats and opportunities in an organization.

For example, the lifestyles of people are changing day by day. Now, women are perceived as active

earning member of the family. If all the members of a family are working then the family has less time to spend shopping. This has led to the development of shopping malls and supermarkets, where individuals could get everything under one roof to save their time.

(v) Technological Environment

Technology contributes to the economic growth of a country. It has become an indispensable part of our lives. Organizations that fail to track ongoing technological changes find it difficult to survive in today's competitive environment. Technology acts as a rapidly changing force, which creates new opportunities for marketers to acquire market share. Marketers with the help of technology can create and deliver products matching the lifestyle of customers. Thus, marketers should observe the changing trends in technology.

Elements of service marketing environment

The eight elements of service marketing are place, people, knowledge, value, relationships, problem-solving, specialization and product.

- **Your Service and Place**

The place is largely defined by your target market. To effectively sell and deliver a service, you need to be where the prospects and customers are. Attorney offices are typically found near a courthouse, and medical practices are often clustered around a hospital. For the service business you are marketing, the proper place means less travel time between revenue opportunities and also the appearance that you are somehow connected with the larger entity.

- **The Right People**

Having the right people makes all the difference to a service business. The way that staff and leadership interact with prospects and clients contributes to business success. Create a marketing plan that promotes your service business staff, not just your brand. Customers find more value in personal relationships with their service providers over brand recognition.

- **Knowledge in Service Marketing**

Service firms are hired for their knowledge. Staff and owner knowledge is a notable marketing tool. If you are in marketing consultation, offer your expertise and opinions on social media, blog posts and other marketing tools. If you are running a high-end restaurant, offer food and beverage pairings and information about the preparation of your offerings. This sends a clear message of expertise to prospects; it makes service into an experience.

- **Value Over Price**

Value is often more important than price as a marketing message. When building a marketing plan for a service business, place the focus on value. Successful service firms have a keen understanding of average customer-value perceptions and communicate how they meet or exceed those expectations for the client's benefit. For example, if the majority of prospects are focused on how fast service is delivered, then marketing materials should emphasise speed over other considerations.

- **Relationships in Service**

Relationships anchor clients. Relationships enable well-managed service firms to gain a competitive advantage by creating protection against service issues and competition and uncovering new growth opportunities. Marketing efforts should clearly show a high level of commitment to customer relationships throughout the service firm. If customers are pleased with how you resolve their problems, they are much less likely to consider a competitor. Customers are likely to be receptive to additional sales opportunities when they feel valued.

- **Problem Solving**

Successful service businesses excel at showing customers they can solve problems versus simply offering a one-size-fits-all service. This is a great way to stand above the competition. This includes post-sale customer service, as issues may arise and word-of-mouth advertisements still hinge on your customer having a good experience even beyond the point of transaction.

- **Specialisation**

Specialisation creates comfort for customers. Customers like to work with specialised service providers. For example, if a patient is sick and her primary physician can't diagnose the problem, she is forwarded to a specialist, giving her comfort that her ailment can be cured. Specialisation is a tool to build your client base, enabling you to solve a specific problem in your target industry or niche. You can establish greater control over your market share if you specialise – it prevents you from spreading your service too thin.

- **Product**

Products are often defined by an industry's customers. Products get created in response to customer needs, so should be able to bridge a gap between your representative and the client. Service firms show they are listening by creating a product message that demonstrates how clients benefit. Use your services to advertise your products; customer service representatives are unique in that they can tailor conversations to specific potential clients and truly identify solutions for them.

UNIT END QUESTIONS

A. Descriptive Questions

Short Questions

1. Define service
2. Explain what is sevice marketing environment?
3. Describe briefly about service marketing characteristics
4. What do you understand by tangible and intangible services ?
5. What is difference between production and consumption of services ?

Long Questions:

1. Define services. What are the characteristics of services?
2. What do you mean by 'service environment'? Explain the broad classification of services.
3. How is product different from services? Explain it's importance.
4. What does Perishability of services means?
5. Differentiate between
   a) Goods and Services
   b) Tangible and Intangible Services
   c) Product vs Services

B. Multiple Choice Question

1. Which of these statements can be considered as false?
   a) Services cannot be touched or seen in the same manner as goods
   b) Consumer judgments about services tend to be more subjective than
   c) objective. Customers involvement affects service quality
   d) Services are first produced, then sold, then consumed.

2. Of the four unique service characteristics that distinguish goods from services, the one that is the primary source of the other three characteristics is:

   a) Intangibility

b) Inseparability

c) Perishability

d) Heterogeneity

3. The unique service characteristic that reflects the interconnection between the service firm and its customer is called

a) Intangibility

b) Inseparability

c) Homogeneity

d) Perishability.

4. Which of the following statements pertain to inseparability is false?

a) As customer contact increases, the efficiency of the firm decreases.

b) Customers can affect the type of service desired

c) Customers can affect the length of the service transaction.

d) Customers can affect the cycle of demand

5. The unique service characteristic that deals specifically with the inability to inventory services is

a) Inseparability

b) Intangibility

c) Homogeneity

d) Perishability

e)

Answers:

1-d, 2-a, 3-b, 4-a, 5-d

1.5 References

1. Lovelock, C., & Wirtz, J. (2007). *Services Marketing: Textbook*. Publisher.

2. Lovelock, C., & Wright, L. (1999). *Principles of Service Marketing and Management*. Publisher.

3. Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services marketing: Integrating*

customer focus across the firm. McGraw-Hill Education.

4. Gronroos, C. (2007). *Service management and marketing: A customer relationship management approach* (3rd ed.). Wiley.

Certificate/ Diploma Course in
Retail and Sales Management

UNIT – 2 DEVELOPING SERVICE PRODUCTS

STRUCTURE

2.0 Learning Objectives

2.1 Introduction to developing service products and pricing planning and creating service products

2.2 Planning and creating service products

2.3 Designing service concept

2.4 Defining core and supplementary products

2.5 New service development

2.6 New service categories

2.7 Reengineering service processes

2.8 Physical goods as source of new services

- 2.8.1 Pricing
- 2.8.2 Objectives
- 2.8.3 Strategies
- 2.8.4 Fairness and Ethical issues

2.9 Unit End Questions

2.10 References

2.0 Learning Objectives

After studying this unit, you will be able to:

- Outline the concept of service products and pricing
- Summarise the service products

- Describe the need of physical goods

2.1 Introduction to Developing Service Products and Pricing

What is product development?

Product development -- also called new product management -- is a series of steps that includes the conceptualization, design, development and marketing of newly created or newly rebranded goods or services. Product development includes a product's entire journey -- from the initial idea to after its market release.

The objective of product development from a business standpoint is to cultivate, maintain and increase a company's market share by satisfying consumer demand. From a customer standpoint, it's to ensure value in the product as a quality good or service. Not every product will appeal to every customer or client base, so defining the target market for a product is a critical step that must take place early in the product development process. Organizations should conduct quantitative market research at all phases of the design process, including before the product or service is conceived, while the product is being designed and after the product has been launched.

Product development frameworks

Although product development is creative, it requires a systematic approach to guide the processes required to get new products to market. Organizations such as the Product Development and Management Association (PDMA) and the Product Development Institute (PDI) help organizations select the best development framework for a new product or service. This framework helps structure the actual product development.

Some frameworks, such as the fuzzy front end (FFE) approach, define the steps that should be followed early in the development process but leave it up to the product development team to decide in which order the steps make the most sense for the specific product that's being developed. The five elements of FFE product development are as follows:

• Identification of design criteria entails brainstorming possible new products. Once an idea has been identified as a prospective product, a more formal product development strategy can be applied.

• Idea analysis requires a closer evaluation of the product concept. Market research and concept studies are conducted to determine if the idea is feasible or within a relevant business context to the company or the consumer.

• Concept genesis involves turning an identified product opportunity into a tangible concept.

• Prototyping includes creating a rapid prototype for a product concept that has been determined to have business relevance and value.

• Product development requires ensuring the concept is viable and has been determined to make business sense and have business value.

Other frameworks, like design thinking, have iterative steps that are designed to be followed in a particular order to promote creativity and collaboration. The five components of design thinking are as follows:

1. **Empathize**. Learn more about the problem from multiple perspectives.

2. **Define**. Identify the scope and true nature of the problem.

3. **Ideate.** Brainstorm solutions to the problem.

4. **Prototype**. Weed out unworkable or impractical solutions.

5. **Test**. Solicit feedback.

How to create a product development plan

The product development plan may change, depending on the organization creating it. However, a general plan should include the following steps:

1. **Identify a product need and business case.** Using practices like test marketing and surveys, organizations can gauge interest in a product. This helps ensure the product has a strong reason to be created.

2. **Create a product vision.** This includes coming up with the project's scope, purpose for the product, what it does, who it's for and the product design, while also crafting guiding principles for the upcoming work.

3. **Create a roadmap. A**ssess the project as a concept first to ensure good design work, then begin crafting the roadmap. The roadmap aids in identifying what goals should be developed first. Implementation teams create schedules, break down significant portions of the project into sprints and generate iterations of the product.

4. **Begin implementing the roadmap.** Teams can then start implementing the project, following the

roadmap. Iterations of the product can be made, reviewed and improved upon. This helps identify weak areas of the product and enables development teams to fix and improve the product.

5. **Continue with development and assessments.** Development teams can work on enhancements and changes to the product. In this step, feedback can be gathered from customers to change the product based on customer needs.

Stakeholders should also be included in these steps to ensure their needs and requirements are being met or addressed.

Stages of new product development

The new product development process consists of the following components:

Idea generation is the continuous and systematic quest for new product opportunities, including updating or changing an existing product. The goal is to generate ideas for new products or services -- or improvements to products or services -- that address a gap in the market.

Idea screening takes the less-wanted product ideas out of the running. Unsuitable ideas should be determined through objective consideration, early testing and feedback from consumers.

Concept development and testing are vital. The internal objective analysis is replaced by customer opinion in this stage. The idea, or product concept at this point, must be tested on a true customer base. Further development of the concept can be made according to the feedback. One example of concept development is the prototypes developed by car manufacturers. These concept vehicles are made of clay and shown at auto shows for consumer feedback.

Market strategy and business analysis identify the product strategy of how to optimally market and sell a product or service. It's comprised of the four P's of marketing -- product, price, promotion and place.

Product. The service or good that's been designed to satisfy the demand of a target audience.

Price. Pricing decisions affect everything, including profit margins, supply and demand as well as market strategy.

Promotion. The goals of promotion are to present the product to the target audience -- increase demand and illustrate the value of the product. Promotion includes advertisements, public relations and marketing campaigns.

Place. The transaction may not occur on the web, but in the digital economy, customers are generally engaged and converted on the internet. Whether the product is provided in a traditional brick-and-mortar

business setting or is available through an omnichannel approach, the optimal channel or channels must be determined. This is especially true if the targeted potential customers are to become actual customers.

Feasibility analysis or study yields information critical to the product's success. It entails organizing groups that will test a beta version or prototype of the product, and then evaluate the experience in a test panel. This feedback communicates the level of interest in the product by the target users. It also helps determine if the product in development has the potential to be profitable, attainable and viable.

Questions to be answered during the feasibility analysis include the following:

• Do you have the labour and materials required?

• What's the price of production, delivery and promotion?

• Do you have access to the right distribution channels?

Product technical design and product roadmap integrate the results of the feasibility analyses and feedback into the product. This stage consists of turning that prototype or concept into a workable market offering; ironing out the technicalities of the product; and alerting and organizing the departments involved with the product launch. This includes research and development, finance, marketing, production and operations. This step should also consist of creating a product roadmap that teams will follow to develop the new product.

Test marketing or market testing is where the goal is to validate the entire concept -- from the marketing angle to packaging, advertising and distribution. Test marketing is often performed by offering the product to a random sample of the target market. By testing the entire package before launch, an organization can review the reception of its product before a full go-to-market investment is made. Market entry and commercialization is the stage in which the product is introduced to the target market. The product is now available to everyone and the product lifecycle begins. The life of the product is shaped by the reception of the target market, the competition and subsequent enhancements to the product.

Product development is an ever-evolving and fluid process. In some organizations, there's a dedicated team that researches and tests new products whereas smaller organizations may outsource their new product development to a design team. In midsize organizations, the product manager is often the person in charge of product development. Regardless of which framework is used and who is in charge of new product development, this is just one aspect of the entire product lifecycle management (PLM).

Examples of product development

Taco Bell

Taco Bell has a unique approach to new product development, as its innovation team looks to grocery stores, social media and competitors for its inspiration.

Idea generation.

The development team reviews 4,500 new product ideas each year.

Concept development and testing. The team generated 80 iterations of the Waffle Taco before deciding on the final one. Unfortunately, Taco Bell discontinued the Waffle Taco after only a year, replacing it with the Biscuit Taco.

Product technical design. For the Doritos Locos Taco, the product team discovered a process to evenly distribute seasoning on the shells and contain cheese dust in the production process.

Test marketing. Between 350-500 ideas end up in consumer tests.

Market entry. Eight to 10 products end up on the national menu.

Roomba

Another example is the Roomba, an autonomous robotic vacuum cleaner sold by iRobot. An article in New York Magazine profiles the Roomba's creation by its inventor, Joe Jones. This article focuses on the early stages of product development, which ultimately led to the product's launch and success.

Idea generation. The idea for Roomba originated with a do-it-yourself Lego challenge when Jones worked at the Massachusetts Institute of Technology Artificial Intelligence Lab. The challenge was to make something innovative from Legos.

Idea screening. Jones showed initial concepts to companies -- Denning, Bissell and Proctor & Gamble -- but the companies declined to move forward.

Product technical design. After they invested $1-2 million in the project, due to personnel changes, SC Johnson decided to stop supporting the Roomba.

Five phases guide the new product development process for small businesses: idea generation, screening, concept development, product development and, finally, commercialization.

Phase One: Idea Generation

This is the initial stage where a business sources idea regarding a new product. Some of the sources for new product ideas include business customers, competitors, newspapers, journals, employees and suppliers. Small businesses may be limited when it comes to technical research-based idea-generation techniques. This stage is crucial as it lays the foundation for all the other phases, the ideas generated shall guide the overall process of product development.

Phase Two: Screening

The generated ideas have to go through a screening process to filter out the viable ones. The business seeks opinions from workers, customers and other businesses to avoid the pursuit of costly unfeasible ideas. External industry factors affecting small businesses, such as competition, legislation and changes in technology, influence the enterprise's decision criteria. At the end of the screening process, the firm remains with only a few feasible ideas from the large pool generated.

Phase Three: Concept Development

The enterprise researches to find out the potential costs, revenues and profits arising from the product. The business conducts a SWOT analysis to identify the strengths, weaknesses opportunities and threats existing in the market. The market strategy is set out to identify the product's target group, which facilitates segmentation of the product's market. Market segmentation is important as it enables the firm to identify its niche. The identified niche influences most of the marketing decisions.

Phase Four: Product Development

Product development entails the actual design and manufacture of the product. Development commences with the manufacture of a prototype that facilitates market testing. Based on the results of the tests, the business owner decides whether to undertake large-scale production or not.

Phase Five: Commercialization and Rollout

Favorable results in the development stage precede large-scale production and commercialization. Here, the business launches its promotion campaign for the new product. The market research conducted during the conception stage influences the timing and location of the product launch.

Pricing Strategies for Service Businesses: Everything You Need to Know

What are the different pricing strategies for service businesses? How do I choose the one that's right for me? Read on to learn almost everything you need to know with this comprehensive service pricing strategies guide.

For even more expert advice, watch this episode of Ask a Business Mentor to hear how four experienced business owners choose the right pricing:

How to Choose a Pricing Strategy

There's more to pricing strategies than simply offering the lowest price to beat your competitors. That may be one of the most dangerous pricing strategies for service businesses, as it almost guarantees lost profits.The right pricing strategy has to align with your business goals, whether these are to maximize profitability, ensure your business's longevity, or grow your customer base.

The Challenges of Choosing the Right Service Pricing Strategy

Selecting the right pricing strategy for your service business and ultimately pricing your services is notoriously hard for several reasons:

• The sheer number of pricing strategies for service businesses is overwhelming. How do you know which one is right for your business?

• No one job is the same. There are many nuances involved—like the travel distance to clients, job complexities, etc.— which makes it hard to create accurate estimates. As a result, you often only know what to charge as the service unfolds.

• You have to manage your insecurities, which may cause you to set low prices in the hopes of winning the business

You Can Overcome Your Pricing Fears and Get Comfortable with Service Pricing Strategies

Pricing, like window cleaning, landscaping, or even marketing, is just another skill you can master with time. So, instead of feeling intimidated or overwhelmed, arm yourself with the right information from the start and you'll soon be a skilled pricing professional.

In this post, we'll go over everything you need to know about pricing strategies for service businesses, including:

• What exactly are service pricing strategies are

• Why they're essential for your service business

• Different pricing strategies for service businesses

• Factors to help you decide which pricing strategy is right for you

What Are Service Pricing Strategies?

Service pricing strategies refer to the different methods services businesses use to price their services. It's a broad term that covers areas like market conditions, variable costs, margins, and a customer's ability and willingness to pay for your services.

Why Are Pricing Strategies Important?

Pricing strategies are crucial for many reasons:

Choosing the right price has a direct impact on your sales and profits. As you'll see, a good pricing strategy doesn't necessarily mean offering the lowest price. Instead, it involves setting a price that's aligned with the value you provide.

We don't anywhere say that we're the cheapest. That's not what our goal is. Our goal is to provide value. By the time the client sees a quote, they're not just looking at the bottom line. They're looking at how [we] called them a couple of hours after they reached out, how I showed up when I said I would, how we emailed them a quote right away…all of those things show them that there's more value than what the price is.‖

Pricing strategies shape your prospects' view of service quality. For example, a low price may lead customers to believe that your service quality is poor.

Your pricing strategy is a strategic tool to help you achieve your business objectives. The most common objective is maximizing profit, but you may have others such as growing market share quickly, edging out the competition, or building lasting relationships with customers so they'll continue working with you for years to come. The best pricing strategy for your business is the one that aligns with your business objectives.

11 Pricing Strategies for Service Businesses

There are many different pricing strategies to choose from. Here are 11:

1. Market penetration strategy: Set prices low to grow market share. Then increase your rates over time as your customer base grows. Admittedly, this isn't a common pricing strategy for service businesses, but

it can help you grow your customer base quickly. The big problem with this approach is that some customers may associate the lower price with an inferior level of service. You will also have to work a lot harder to cover your costs.

2. Price skimming: The opposite of a market penetration strategy. Here you set a high price and lower it over time. Again, this isn't your typical pricing strategy for a service business. But it may work if you have something special to offer. The pros are that you'll maximize your profits upfront and grow a more sustainable business. The big drawback, however, is that if you can't justify the price, you'll struggle to get your business off the ground.

3. **Premium pricing:** Charge higher prices because you have something that makes you unique. For example, do you offer a warranty or service guarantee that your competitors do not? Do you use exclusive tools or technology that make your business easier to work with and deliver results that stand out?

4. Economy pricing: Set low prices because overheads are low. Your costs may be low for several reasons. Perhaps you use software to organize and manage your business instead of hiring an assistant. Or maybe you have a special arrangement with one of your suppliers which allows you to get inexpensive supplies.

5. **Cost-plus pricing:** Calculate the cost to deliver your services and add a margin for a profit. For example, if you know your time and materials cost $200, and you want to make a 20% profit margin, simply charge $240. This is a straightforward pricing strategy, but it can cost you money because you may end up getting a lower price than what customers are willing to pay.

6. Psychological pricing: Prices are based on the psychological impact they have. For example, it's believed that odd prices like $19.97 are more attractive than round numbers like $20.00.

7. Competitive pricing: Charge according to what the competition charges. While competitors can give you a good idea of where to start, remember that your business is unique. Just because someone is charging a specific price doesn't mean you should match or undercut them.

8. Bundled pricing: Also known as packaged pricing, this strategy involves bundling various services together and charging one price. Bundled services are usually cheaper than if customers were to purchase each service individually. If done correctly, this technique is a great way to upsell more services and boost your profits—as Dave Moerman of Revive Washing notes:

—Our house washing package is our most requested and most profitable service. This is a full soft wash of siding, windows, and gutters). Homeowners like this package because it takes care of all services with one detailed visit…For our crew to be profitable, we have to do a certain amount of revenue per day.

Small jobs are okay to slot in, but we like to have a good-size house wash for each crew for each day. From a profitability perspective, it's much better.

9. Good, better, best pricing: Also known as tiered pricing or price bracketing. Offer clients the option of choosing between different levels of service or packages. In window cleaning, for example, you can offer a basic package for $99 (outside cleaning only), a standard package for $149 (inside and outside), or a deluxe package for $199 (inside, outside, tracks and sills). Each package offers incrementally more value, and the price difference gives the consumer a chance to consider what they are willing to spend.

You can also experiment by increasing the lowest tier price to give the two other tiers a higher perceived value. For example, if you price the starter package at $129, and the standard package is $149, clients may choose the standard package because it's a small amount of money for considerably more value.

The big advantage of good, better, best pricing is that customers now compare your packages against each other instead of comparing you against the competition, which improves your chances of selling your services.

Jobber's quoting features, let you win more jobs worth more money and build flexible quotes that stand out from the competition. Upselling optional add-ons and packages can increase your quote totals by 35% on average.

You're able to highlight different packages like Gold, Silver, and Bronze and empower clients to select the option that works best for their needs and budget.

10. Value-based pricing: Charge a flat fee based on the value (benefits) your service provides. Value, for example, could mean saving the customer time or giving them peace of mind. Before quoting a client, make sure you're clear on the benefits your service provides and, in turn, what they're paying for.

For example, parents who use house cleaning services are not paying for the service itself, but for the time it frees up so they can spend with their children. Charging for your services based on value lets you charge a premium and protects you from the all-too-common price haggling that occurs with some customers.

11. Hourly-based pricing: Estimate how long a job will take and multiply it by your hourly rate. Although this pricing strategy may be suitable when starting a business, do use it with caution as it has its downfalls:

• You aren't rewarded for becoming better and faster at what you do

• Clients may feel you're purposefully taking your time on a job so you can earn more

• The focus is on the cost of the service rather than the value, which opens you up to price haggling

So, What Pricing Strategy Is Right for Your Service Business?

The many pricing strategies available can make it hard to determine which one is right for you. But, you can make the right decision by considering a few factors.

As you read through the upcoming section, remember that no strategy is better than the other and will depend on your unique business needs.

You can also use many of these strategies simultaneously; you do not have to select one. For example, value and bundled pricing are a perfect complement to one another because in both cases, you're showing clients that you understand their needs.

Factors to Help You Choose the Right Service Pricing Strategy

• Your overheads. If you have lower overheads, you can charge more competitive prices. Conversely, if your costs are high, then competing on price isn't viable. You're better off charging a premium based on a unique differentiator.

• Your goals. If you're a new business looking to get customers fast, you may opt for a market penetration strategy to achieve rapid adoption.

• How established you are. If you've been operating for a few years and want to grow faster and sustainably, offering packages is a good option. Providing packages helps you sell more by turning the intangible (your service) into something tangible (a product), which makes it easier for customers to buy.

The Bottom Line on Pricing Strategies for Service Businesses

The word ―pricing‖ instils fear into many small service business owners—and with good reason.

Pricing services is generally harder than pricing products as each job is different, and you have to grapple with your own experience, insecurities, and specifics of each job. On top of that, pricing is complex with many different pricing strategies to choose from.

Of course, just because something seems difficult, doesn't mean it is or that you shouldn't try. After all, the more jobs you bid for, the more you'll learn about what works and what doesn't. It'll only be a matter of time before you find a pricing strategy that's right for your business.

2.2 Planning and creating service products

By going ―lean‖ long before it became a movement, we developed a cohesive model that has helped our clients and will hopefully help you, too. The model is comprised of seven steps to help you create a product or service while maintaining peace of mind.

Step 1: Assess: examine your goals

Get a strong sense of the opportunity you're exploring: What is the unmet need you're trying to fill? Without the service or product, you're creating, how does your audience currently experience the need you are trying to meet? Once you're grounded in these realities, start small. Pull together a team that works collaboratively. Truly understand the cost of the business and don't assume that because you're going digital it will be cheap. That said: no big spends right now. Leave the tagline until later and focus on how you will go about creating the product, preferably using the agile method.

Step 2: Observe: follow your insight

Train your eye toward potential customers to see whether they truly want what you're putting down. A great way to do that is through a rapid test panel, where you can pose questions and get responses in a matter of days, not weeks or months. This is how you can check your assumptions, define value propositions and get reactions to product prototypes. Our best advice? Be willing to be wrong. Humility and a willingness to course correctly can save so much money down the road.

Step 3: Imagine: unleash your creativity

Let your ideas build on each other in a positive environment where you discover what's possible. Take the team out of the office to give maximum freedom yet hold to the constraints of your market, your audience and your budget. Ideating without a framework could generate possibilities that are far too broad, while a habit of constant critique will keep new ideas from flourishing. Agree on the criteria to move forward with an idea, and once you have some winners, consider what the rollout would look like

and how you would measure success.

Step 4: Create: build your prototype

How can you learn about your product as fast as possible? Go with paper prototypes or a Minimum Viable Product (MVP)–the least expensive, time-consuming iteration of your product–to see how it performs in the real world. Your MVP is going to be a bit rough, but that's okay. Whatever you do, avoid heading straight for a Very Done Viable Product (VDVP, a ridiculous term we invented), with all the bells and whistles. Because what if half those bells and whistles need to go? How can you defend that investment when there's so much to learn?

Step 5: Quantify: find your metrics

With your prototypes or MVP in hand, develop hypotheses and put them to the test. Focus on specific variables so you can get worthwhile answers. For example, the initial hypothesis driving WhatsApp was that people wanted a way to communicate securely over international lines, but now they're rolling out peer-to-peer payment based on the assumption that users want to address all their transactions within the same app. Once you have your hypotheses, agree on how you'll measure progress i.e. willingness to pay, engagement (Daily Active User/Monthly Active User), or any number of metrics. Beware of vanity metrics, or feel-good numbers that make the boardroom go wild but don't track sales or product sustainability.

Step 6: Learn: listen to your data

As much as speed has been a factor up until this point, it's time to slow down and get to know your data. How is your product or service faring? What needs to shift? Note: the only voice that counts is your customer's. Once you have a clear understanding of where you are, it's decision time: scrap, loop or move forward. If most of your hypotheses didn't pan out, let it go. If some did but your endeavour needs more work, loop back to the drawing board (AKA step one). If all your hypotheses were on point, move forward to the production line.

Step 7: Act: make your move

Whatever direction you're moving in, support your decision in language that your stakeholders will welcome and understand. This is when authentic leadership makes all the difference–seeing things as they are and being transparent with all players. If you're moving forward, conceive of your marketing funnel, consider new rounds of funding, and plan how you'll progress from MVP to VDVP. If you're scrapping or looping back, know that you've saved the company from unnecessary investment and that your career

will be marked by this moment of integrity. Chin up!

Conclusion:

This process is our attempt to help technology be at its best, to find a way to wonder aloud and create something that the world is waiting for. As you work through it and meet with success or failure, let us know how it's going. Because when you're in the process you're a part of the process, too.

2.2 Designing service concepts

Effective service design enhances the service experience for customers and employees alike. As customer service impacts all facets of a business, understanding this growing business practice is essential for all business owners and employees involved in the planning and implementation of service processes. If you're a leader, learning more about service design may be helpful. In this, we discuss what service design is and why it matters to businesses.

What is service design?

Service design is the practice of planning and organizing a business's resources to enhance the experience of employees and their customers. It creates streamlined service processes to help employees work more efficiently and serve their customers more effectively. Just as a product designer might design a toy or a garment of clothing, people involved in service design plan out the direct and indirect interactions people have with companies and their representatives when they book flights or dine out. These are some reasons service design is important:

• **Provides a framework:** Just as product designers create a blueprint for their products, service designers create a service blueprint. These blueprints work the same way, serving as a framework for business processes that provides direction for achieving end goals.

• **Improves customer experience:** Service design addresses the common practice of focusing on customer-facing outputs at the expense of internal processes. Shifting the focus ensures internal processes and the resources used to complete their work more cohesively.

• **Boosts morale:** The relationships formed through service design are important to organizations. Service design encourages employees to work in alignment to improve service processes.

• **Adds business value**: As service design enhances customer experiences, consumers are more likely to become repeat customers. This increases the chances that customers refer others to the business.

5 components of service design

To fully comprehend service design, you need to understand its fundamental principles so you can relate them to your own business. There are five main components, including:

1. General service design principles

General service design principles apply to all aspects of planning and organizing service resources. Follow these main principles governing service design:

• Consider each service's purpose, customer demand and the company's capacity to deliver it.

• Aim to satisfy customer needs of business needs.

• Ensure services work within whole efficient systems rather than in isolation.

• Ensure services deliver value and efficiency for users and customers.

• Consult users and relevant stakeholders.

• Make prototypes before developing services.

• Consider special events and how they may impact services to minimize disruption.

2. Service design principles for processes

The design and development of processes are an integral part of service design. Follow these principles governing process design:

• Ensure that activities always add value to customers.

• Focus on the process rather than constructs like products and how they function.

• Focus on satisfying customer needs. If customers have several conditions, you may need to develop multiple processes to meet them all.

• Make sure processes and development are part of the company's larger operations rather than fragmented.

• Simplify processes by reducing steps, points of contact, restrictions, breaks or delays, the number of reliant processes and other elements.

• Use performance indicators to measure results that show employee and customer experience, such as the

number of customer queries resolved satisfactorily.

3. Service design principles for employees

Employees are one of the most critical resources businesses have and one of the essential drivers of service design. Follow these service design principles to achieve optimal results from employees:

• Work in groups of people who are knowledgeable about services and their associated processes and have skills relevant to these areas.

• Share your point of view to make and influence decisions and encourage others to do the same.

• Work in a location where you can operate efficiently and productively.

4. Service design principles for information

The free flow of information helps businesses deliver services to their customers. Employees can work more productively when they have relevant information about their business' products, services, and customers. A free flow of information also makes companies seem more trustworthy and transparent. Follow these service principles concerning information to achieve this free flow:

• Share data freely within the business and with members of the public.

• Ensure data can transfer for easy sharing and reuse by people within the organization and other stakeholders. This may involve adopting digital record-keeping methods, for example.

• Replace data entry, which may be prone to errors, with more reliable data lookup, selection and confirmation tools.

5. Service design principles for technology

Technology is vital in almost every business industry, including service design. Follow these service principles to use technology to its fullest potential:

• Use technology to enable services rather than drive them.

• Ensure technology is appropriate for the service, and only use it when it achieves the optimal outcome.

• Make sure technology is flexible enough to be changed in the future when or if necessary.

Business resources in service design

Service design works by shifting business focus away from customer-facing outputs, such as business websites and social media platforms. You can then apply business resources, such as budget and time, to often-neglected internal processes like the internal distribution of information. In doing so, service design aims to match the typical customer journey with internal procedures. Here are three primary business resources you can organize using service design:

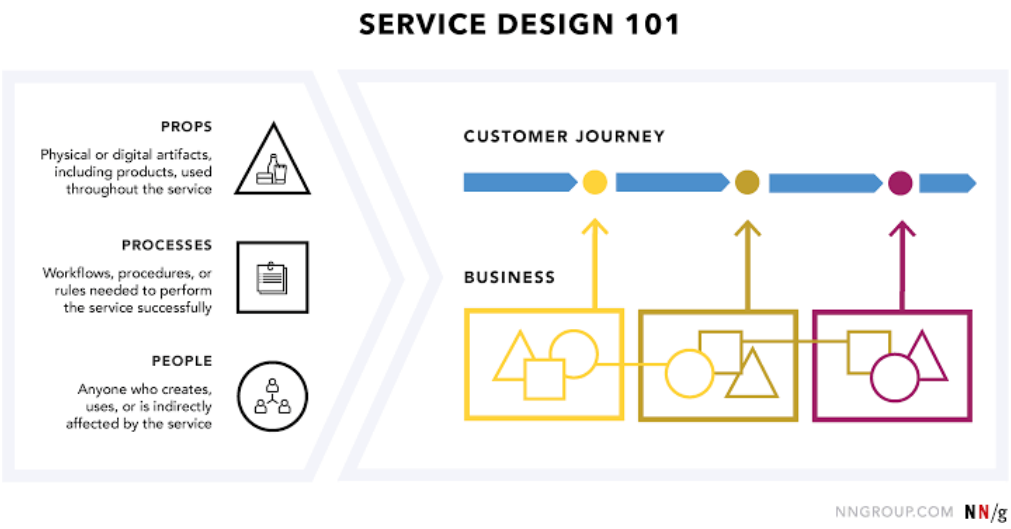


Fig 2.1 Service Design

• **People**: This includes individuals who create or use a service and anyone indirectly affected by the service. This includes a company's employees, customers and partners.

• **Props**: This includes items required to perform the service. This includes products, physical and online stores, social media platforms and point-of-sale software.

• **Processes**: This includes any procedures performed by employees or customers during the service experience, such as asking questions about a product, purchasing it, calling a customer care hotline, cleaning a store and interviewing a new employee.

Service design example

Here's a real-world example of effective service design:

Farm Fresh Foods employs a variety of people, including chefs, sous chefs, bussers, servers and hosts. Processes conducted in front of diners are called front-stage processes. Others are backstage processes because they happen out of view of diners. Whether visible to diners or not, these processes still impact the food patrons receive and their experience in the restaurant. Thoughtful service design enhances the dining experience, while poor service design negatively impacts the dining experience. Service design helps the restaurant operate and deliver meals to its diners more effectively, including the following facets:

- **Ingredient sourcing**
- **Ingredient transportation**
- **Meal preparation**
- **Recruitment**
- **Cleaning processes**
- **Health and safety**
- **Communication**

2.3 Defining Core and Supplementary Products

A service consists of two product elements to perform its function. The two product elements are core products and supplementary services. The core product is the core set of benefits and solutions delivered to customers while the supplementary services are service-related activities that surround the core product. Other than that, Supplementary services are classified with facilitating and enhancing services into eight factors. Facilitating services are included information, order taking, billing and payment yet the enhancing services contain consultation, hospitality, safekeeping, and exceptions.

The core product provided by First World Hotel (Genting) to consumers is accommodation. The hotel was designated to contribute supreme comfort and luxury for the customers with the help of variety types of Room Facilities. They had located 32 counters in the lobby to let customers do the check-in process for the 6118 rooms available. First World Hotel had supply six room types for consumers to choose from. There are Standard rooms, Deluxe rooms, Deluxe triple rooms, Superior deluxe rooms, and World Club rooms. To assist the customer, the hotel also provides no smoking rooms and special rooms for deficient people. Each of these types of rooms is designed to offer comfort and pleasure to the customers.

The hotel was built with a convenient location, a variety of types of facilities and warm hospitality. In the hotel rooms, the service provider had provided the basic infrastructure to roomers like an in-room safe deposit box, mini refrigerator, air conditioning, hairdryer, television, in-house movie channels, tea and coffee facilities, direct dial telephone, radio, shower, mini bar, and others. Besides that, the roomer can get attentive room service for all 24 hours, absolute privacy and a total getaway experience. They emphasize every detail in accommodation to make sure roomers had memorable experiences and enjoy the First World Hotel.

First World Hotel also provides supplementary services for the customers who stay in their hotel. The supplementary services are categorized as facilitating services and enhancing services. The facilitating services are included:

- **Information**

The information provided by the hotel let customer obtain the full value form of any service and relevant information. First World Hotel delivers more information about the services provided for visitors to attract more customers. The information provided by them can be payment for an overnight stay in different classes of rooms, warnings and reminders to use hotel facilities, operation time of dining and so on. Customers can get information from many sources like phone calls, customer service centre websites, flyers, newspapers, social apps and more. For example, customers can get the location, price of the rooms, and promotion packages from www.genting.com.

- **Order taking**

Once customers are ready to order First World Hotel services, they will move to the process of order-taking. It can be on the website, by mail, telephone and e-mail. The customer hotline of First World Hotel is +66-38-364-700, this hotline exists to help customers to make a reservation for a room whether it is a standard room or another room type.

- **Billing**

Customers can easily get all price information since First World Hotel provided the price of different rooms through the website, flyer, counter, customer service centre and hotline. At their hotel lobby, 32 counters are waiting for customers to check in or make payments so customers did not need to waste their time waiting.

- **Payment**

Customers expect it to be easy and convenient when making payments. There are a variety of options that exist to facilitate customer bill-paying provided by First World Hotel like a credit card (master card or

visa card), e-banking, at-the-counter, tokens or world card into machines.

Another category of supplementary services and the last part in the product element is enhancing services that contain the following four factors:

- **Consultation**

Consultation involves a dialogue to probe customers' requirements and then develop a solution that is suited to the needs of the customers. For example, First World Hotel provide medical consultation for people who got an illness and gym consultant give customers advice on how to use the gym equipment.

- **Hospitality**

The quality of hospitality services offered by a firm can increase or decrease satisfaction with the core product so First World Hotel ensure their staff treat every customer as a guest. They provided quality meals and room services for each customer. First World Hotel offers myriad Hotel Amenities and Services in Genting Highlands to suit the taste and purpose of the different customers and this factor attracts many visitors from all over the world. Furthermore, restaurants over there offer a lot of dining such as Mediterranean food, seafood, Hainan food, western dishes, hawker-style noodles, refreshing coffee and places for relax tired like Star world Café.

The hotel offers enough space to conduct corporate meetings and conferences that are equipped with modern amenities and services. The hotel also features a business centre for the smoothness of the business, banquet facilities with international standards, a gymnasium, and other recreational facilities including a tennis court, golf course, shopping arcade, casino and many others. Other Hotel Amenities and Services at the hotel are car parking facilities, reception, currency exchange, laundry and many more.

- **Safekeeping**

Customers can fully enjoy the service provided without worrying about their things at First World Hotel because they provide a variety of safekeeping services. For example: caring for possessions customers bring with them, child care, security personnel, caring for goods purchased (or rented) and others.

Exception

This is something that is outside of the normal service delivery. There are four types of exceptions provided by First World Hotel:

• **Special requests in advance of service delivery –** The hotel provides children's needs and disability needs to the customer. For example, toilets for disabled people.

• **Handling special communications –** The hotel overcoming complaints by the customers at counters and giving customer suggestions. For example, a customer complained the room was unclean and untidy.

• **Problem-solving** – Hotels help customers resolve difficulties caused by accidents or service failures. For example, if a customer is injured in hotel, help them to have medical treatment.

• **Restitution** – refunds and compensation for the dissatisfied customer using the services. For example, compensate for a customer who was injured at a theme park.

2.3 New Service Development

New Product Development Process: Everything You Need to Know

Bringing a new product to life can be challenging. You know that you have an idea that can bring value to a target market, but you aren't exactly sure how to bring your product to that market.

This process can become especially difficult if you've never done it before, as you may not even know where to begin. Thankfully, a blueprint exists in the new product development process, which is a strategy that will help you bring your ideas to life. Read on to discover how it's done.

New Product Development Process

New product development refers to the process that goes into bringing a new product to market, from brainstorming an idea to understanding if it fits into the market, ironing it out to prototyping to final commercialisation.

Although it can be a rather lengthy process that sometimes requires iteration, it's all done to ensure that your product is the best it can be before it reaches your customers and solves their needs in the best possible way.

Let's discuss the different stages involved in new product development.

7 Stages of the New Product Development Process

1. **Idea Generation**
2. **Research**
3. **Planning**
4. **Prototyping**
5. **Testing**

6. **Product Development**
7. **Commercialisation**



Fig 2.2: NEW PRODUCT DEVELOPMENT PROCESS

1. Idea Generation

The new product development process begins with idea generation, where you brainstorm an idea (or ideas) that will help you solve an existing customer problem in a new and innovative way. As you're coming up with ideas that will help you solve customer needs, it's important to have a robust understanding of your target market and the pain points they have that you want to solve.

Your initial idea generation stage can be as simple as saying ―What if we did this?‖ and then they become more ROBUST during the research stage.

2. Research

Once you've developed a product idea, the next step is conducting research to FLESH IT OUT. There are various steps you can take to do this, like:

• Market research to understand the current sentiment in your industry and if there are any holes that your product will fit into, and if there will even be demand for it.

• Competitor analysis to understand if customers think there are things your competitors' products or services lack that you can incorporate into your product to better fit your target market's needs.

During this stage, you can also get early feedback from customers about what they think of your ideas before coming up with a final definition for your product. One of the best ways to get this feedback is through surveys, where you can easily and quickly collect information from existing customers. A high-quality tool like Lucky Orange can help you create these surveys, and with it, you can ask multiple-choice questions about types of products they may be interested in, or more open-ended questions that give you more insight into customer opinions.

This stage may include a bit of iteration because your research may tell you that you need to refine your original ideas and adjust your research scope before moving on to the next stage.

3. Planning

The third stage is planning, where you formulate a final product idea/definition based on your initial idea and research and begin coming up with your plans to bring it to life.

When you define your final product, you'll want to begin planning for what you'll need to create it. For example, if you're creating a physical product, you'll need to source the necessary materials or find production partners that will assist in manufacturing.

Planning also involves coming up with a marketing strategy that will help you effectively market when your product is completed, pricing models that make sense for your product, and that your customers will pay.

It's also critical to identify the teams that will be involved in your product development process that will help bring it to market, from the marketing teams that will promote your product to any possible external partners that will assist with production.

4. Prototyping

The prototyping phase is when you come up with a sample product that is a mockup of what will be created during mass production.

This prototype is often referred to as a minimum viable product (MVP), which is a basic version of your tool, still similar to your final product, that will help you get a sense of how it functions and identify any areas that need to be improved.

You may make multiple prototypes and go back and forth between this stage and the testing stage before

you have a finalized prototype.

5. Testing

Before launching your product you need to test it to ensure it will work as advertised and effectively solve your customer needs. So, during this stage, you'll share your prototypes with target audiences and ask for actionable feedback on how the product works.

Essentially, you want your product to be used in situations that are similar to real-world use cases so you know exactly what works and what doesn't. Sometimes the results of your testing will require you to go back and make changes to your prototype, as mentioned above.

Once you feel as though your prototype is finished and ready to solve your customer needs, you'll begin product development.

6. Product Development

This stage involves creating the final product that will be commercialized once completed. You'll use the insights gained from testing your MVP to make the final touches to your prototype and begin mass production.

Depending on your type of business, you'll likely have a different process for product development. For example, if you're a SaaS business, your internal software development or programming teams will likely work to finalize code. If you create a physical product, you may outsource labour for certain components and assemble the final products in your warehouse.

Whichever your process is, your planning stage should've helped you identify how your product development will go.

7. Commercialization

The final stage of your new product development process is commercialization, where you introduce your products to the market. This is the culmination of your brainstorming, research, and iteration, where your audiences can finally make use of what you created.

You'll enact your marketing plans to make your audiences aware of your new product and enact campaigns that will entice them to become customers.

Although this is the final stage, many businesses launch their products and, over time, return to make improvements to their products based on customer feedback and market changes to ensure they're always

providing the best possible customer experience.

From Brainstorming to Reality

When you complete your new product development process, you'll have brought your brainstorming ideas to fruition and created a real product or service that solves a customer need. If you find success, you'll have created a valuable strategy to replicate that will help you continuously innovate and create new products, giving customers the delightful experiences, they desire.

2.4 New Service Categories

Managers are usually not required to have technical know-how. This means that it is possible to get away without knowing the details of what the employees do. But what about certain important terms given to products? In marketing, they do exist and it would be embarrassing for the manager to not know about them. This is true especially if the company makes products. They have six categories which are very important to understand because they are related to the success of the business. Below we go through the explanation of each.

1. New-to-the-world

What do we call a never before seen product? An invention. Its first setting is the lab. Only its inventor knows how to make it work. The average person on the street is hardly aware of anything about this new product. He needs to be educated about it. This instantly puts the invention under this category called new-to-the-world. It needs to be released with a manual so people know how to benefit from it. When it starts to gain popularity, it creates a whole new market of its own.

There are some advantages and disadvantages to focusing on the new-to-the-world category. The popularity of the new products can boost the reputation of the company. Additionally, it is possible to protect the designs through patents. In this way, the company can make sure that the business they are getting from the products will not be stolen by potential competitors.

The disadvantage, however, is that it costs money to research and invent. On top of that, nothing happens overnight. It can take several months or years for the product to fully form. Yet risk is associated with its release. Sometimes the product is so new that even its inventor has less idea about it. That can mean not being able to foresee glitches. Once released, this faulty product can leave the consumers unsatisfied and angry.

2. New-to-the-firm

How about a product that the company has never made, but is already in the market because other companies are making it? This means that the consumers are aware of how to use it. If the company decides to start making it, its category will be new-to-the-firm. Another marketing term for it is the new product line. New-to-the-firm category can be far more relieving than new-to-the-world in the sense that the company does not need to generate knowledge to work on its products. Recruiting experienced and skilled employees for it is easy

But when it comes to utilizing the new-to-the-firm category, it is always important to choose the product carefully. It must fit the image of what the company produces. Otherwise, disaster may befall. Think about the case of Google Plus. Many of us knew from the very beginning that it was going to bomb because the potential users doubted its connection to Google, the most powerful search engine available today. Very few want their detailed profiles to be overly public and vulnerable to identity theft.
Eventually, people thought exactly this way, leaving Google Plus with very less and sometimes dead profiles.

3. Addition to the existing product line

Go back to the first picture above to see the Fone Ring. At this point, it is considered an invention of someone else. What if Apple or Samsung decides to make it by themselves so they can offer it with their smartphones? Under such circumstances, this product would be known as an addition to existing product line. The advantage of focusing on this category is that it can bring in some good profits. At this moment, however, most companies do the same through sales of headsets and Bluetooth. They are sold separately. It is a great way to offer convenience.

That said, one disadvantage associated with this category is that if the main product is already expensive people may choose to get the generic version of such accessories. This can be reverted by locking the main product in such a way that it accepts only the ones made by the main company.

4. Improved and revised

When it comes to offering the best it is important to improve the product for re-release. As a company embarks on doing so the marketing department working for them would place it under the category of improved and revised. Think about the cars. The manufacturers tend to modify them for annual re-release. The same can be seen in all electronic items such as phones, computers and televisions. Consumers always enjoy some new additions.

Keeping with such revisions can be quite tiring for a company. Huge financial investment is another problem. But if the industry itself has such tradition there is nothing much the company can do. The only

thing that can save them is the sophistication of the product. Think about BMW. For many years, its overall shape remained constant. People did not complain about it because they saw it as something that must be owned simply because of its high-end air.

5. Repositioning

A company may discover that one of its products already existing in the market has another good usage. To make sure that profit flows from this, they can release it again with such revelation. This would put the product in the category of repositioning. Aspirin is a good example of this. It was first released as a painkiller. But gradually, more of its benefits such as the prevention of stroke and heart attack started to pop up. Now the product is known for such usage also. The company itself now has the freedom to market it that way.

The advantage of repositioning a product is that it secures a firm share of the market. Additionally, it attracts new consumers who before did not buy it for its original features. Moreover, researching for such an aim is not at all difficult. But very few companies take time to focus on this category. One of them happens to be Wet n Wild. It is not taking advantage of the fact that its lipsticks contain the least amount of lead and that is powerful enough to defeat both Estee Lauder and Clinique.

6. Reduction in cost

This category has to do with products that are expensive but can be made affordable for both the company and consumers. Change in materials or outsourcing jobs to developing countries is the strategy used for this. Such a turn can certainly bring in more consumers who before could not afford its price. But the main disadvantage is low quality. Cheap materials can force the product to expire quicker. In some cases, it may simply be tough to use.

2.5 Reengineering Service Processes

Your company is making great progress. You're meeting goals easily, but the way you meet goals is where the problem is. Business processes play an important role in driving goals, but they are not as efficient as you'd like them to be. Making changes to the process gets more and more difficult as your business grows because of habits and investments in old methods. But in reality, you cannot improve processes without making changes.

Processes have to be re-engineered carefully since experiments and mistakes bring in a lot of confusion

What is business process re-engineering (BPR)?

Business Process Re-engineering (BPR) is the radical redesign of business processes to achieve dramatic improvements in critical aspects like quality, output, cost, service, and speed. Business process reengineering (BPR) aims at cutting down enterprise costs and process redundancies on a very huge scale.

Is business process reengineering (BPR) the same as business process improvement (BPI)?

On the surface, BPR sounds a lot like business process improvement (BPI). However, there are fundamental differences that distinguish the two. BPI might be about tweaking a few rules here and there. But reengineering is an unconstrained approach to look beyond the defined boundaries and bring in seismic changes.

While BPI is an incremental setup that focuses on tinkering with the existing processes to improve them, BPR looks at the broader picture. BPI doesn't go against the grain. It identifies the process bottlenecks and recommends changes in specific functionalities. The process framework principally remains the same when BPI is in play. BPR, on the other hand, rejects the existing rules and often takes an unconventional route to redo processes from a high-level management perspective.

BPI is like upgrading the exhaust system on your project car. Business Process Reengineering, BPR is about rethinking the entire way the exhaust is handled.

Five Steps of Business Process Re-engineering (BPR)

To keep business process re-engineering fair, transparent, and efficient, stakeholders need to get a better understanding of the key steps involved in it. Although the process can differ from one organization to another, the steps listed below succinctly summarize the process:

Below are the 5 Business Process Re-engineering Steps:

1. Map the current state of your business processes

Gather data from all resources–both software tools and stakeholders. Understand how the process is performing currently.

2. Analyze them and find any process gaps or disconnects

Identify all the errors and delays that hold up the free flow of the process. Make sure all details are available in the respective steps for the stakeholders to make quick decisions.

3. Look for improvement opportunities and validate them

Check if all the steps are necessary. If a step is there to solely inform the person, remove the step, and add an automated email trigger.

4. Design a cutting-edge future-state process map

Create a new process that solves all the problems you have identified. Don't be afraid to design a new process that is sure to work well. Designate KPIs for every step of the process.

5. Implement future state changes and be mindful of dependencies

Inform every stakeholder of the new process. Only proceed after everyone is on board and educated about how the new process works. Constantly monitor the KPIs.

Examples and use cases of business process reengineering

A sampling of some of the most widely cited use cases during the height of the BPR movement includes the following:

• **Ford Motor Company**. Ford radically changed its accounts payable (AP) process by implementing an online database that tracked the process from purchase order to delivery and then automatically made payment. The move to paperless invoices negated the need for staff to spend time matching paper purchase orders with receiving documents and invoices. By rethinking the purchase process to take advantage of technology, the automotive company reduced its AP department's headcount by 75%.

According to Hammer, success depended on Ford's willingness to break away from established assumptions about how operations should work, a concept he referred to as discontinuous thinking.

• **Duke Power Co.** In anticipation of power deregulation, Duke Power Co. reengineered its customer operations processes in the 1990s to cut costs and improve customer service. Although the company performed well on both fronts, once it embarked on BPR, many inefficiencies and inconsistencies were identified across Duke's 13 geographic areas. Process owners were appointed, standard measurements were devised for all types of customer service and "scorecards" were adopted so that employees could track how their work contributed to Duke's business goals of higher earnings and better service.

• **IBM Credit Corp.** In this case, IBM cut its turnaround time to issue credit from a week or more to hours and even minutes by having a team of executives follow the company's process of credit issuance from application to approval. They discovered that the actual work took 90 minutes. The remainder of the

more than seven days, on average, was eaten up by handing off forms from one department specialist to another. IBM replaced its specialists with generalists called "deal structure" who, with the help of expert systems, handled the process from start to finish.

Heyday and backlash

BPR became a multibillion-dollar business in the 1990s as marquee companies embraced the concept of radical change enabled by technology. The business press touted BPR success stories at Union Carbide, Ford Motor Co., Taco Bell, GTE and Bell Atlantic, among others. Consultants and software applications vendors, including enterprise resource planning providers SAP, Oracle and PeopleSoft, jumped on the bandwagon.

As quickly as BPR rose in popularity, however, so did the backlash against it. The radical change proved to be expensive and risky. Mapping processes accurately, working across business silos and using IT to drive business goals -- all major components of BPR -- is difficult work. The most frequent critique of BPR as its lustre wore off was that it placed too much emphasis on technology and cost reduction and not enough on the ways radical change affects people and company culture. By the end of the 1990s, the term business process reengineering was associated with two unpopular trends of the time: downsizing and outsourcing.

BPR and digital transformation

Today, there is renewed interest in BPR as a framework for digital transformation. The adoption of new technologies, such as the Internet of things and cloud, along with advances in artificial intelligence, has spurred many companies to radically rethink their workflows and implement the type of technology-driven radical change advocated by BPR. It’s also become clear to companies that the concept’s focus on radical change can complement process improvement approaches that emphasize incremental change, such as continuous improvement (Kaizen) or total quality management.

The story

An American telecom company that had several departments to address customer support regarding technical snags, billing, new connection requests, service termination, etc. Every time a customer had an issue, they were required to call the respective department to get their complaints resolved. The company was doling out millions of dollars to ensure customer satisfaction, but smaller companies with minimal resources were threatening their business.

The telecom giant reviewed the situation and concluded that it needed drastic measures to simplify

things–a one-stop solution for all customer queries. It decided to merge the various departments into one, let go of employees to minimize multiple handoffs and form a nerve centre of customer support to handle all issues.

A few months later, they set up a customer care centre in Atlanta and started training their repair clerks as _frontend technical experts to do the new, comprehensive job. The company equipped the team with new software that allowed the support team to instantly access the customer database and handle almost all kinds of requests.

Now, if a customer called for a billing query, they could also have that erratic dial tone fixed or have a new service request confirmed without having to call another number. While they were still on the phone, they could also make use of the push-button phone menu to connect directly with another department to make a query or input feedback about the call quality.

The redefined customer-contact process enabled the company to achieve new goals.

• Reorganized the teams and saved cost and cycle time

• Accelerated the information flow, minimized errors, and prevented reworks

• Improved the quality of service calls and enhanced customer satisfaction

• Defined clear ownership of processes within the now-restructured team

• Allowed the team to evaluate their performance based on instant feedback

• When should you consider BPR

• The problem with BPR is that the larger you are, the more expensive it is to implement. A startup, five months after launch, might undergo a pivot including business process reengineering that only has minimal costs to execute.

• However, once an organization grows, it will have a harder and more expensive time to completely reengineer its processes. But they are also the ones who are forced to change due to competition and unexpected marketplace shifts.

• But more than being industry-specific, the call for BPR is always based on what an organization is aiming for. BPR is effective when companies need to break the mould and turn the tables to accomplish ambitious goals. For such measures, adopting any other process management options will only be rearranging the deck chairs on the Titanic.

2.6 Physical Goods as A Source of New Service Ideas

What is product development?

Product development -- also called new product management -- is a series of steps that includes the conceptualisation, design, development and marketing of newly created or newly rebranded goods or services. Product development includes a product's entire journey -- from the initial idea to after its market release.

The objective of product development from a business standpoint is to cultivate, maintain and increase a company's market share by satisfying consumer demand. From a customer standpoint, it's to ensure value in the product as a quality good or service. Not every product will appeal to every customer or client base, so defining the target market for a product is a critical step that must take place early in the product development process. Organizations should conduct quantitative market research at all phases of the design process, including before the product or service is conceived, while the product is being designed and after the product has been launched..

Some organizations have product development centres that make products. For example, Alphabet Inc., Google's parent company, launched a product development center in Kenya, Nairobi -- as Alphabet is positioning itself to serve a growing base of internet users.

Product development frameworks

Although product development is creative, it requires a systematic approach to guide the processes required to get new products to market. Organizations such as the Product Development and Management Association (PDMA) and the Product Development Institute (PDI) help organizations select the best development framework for a new product or service. This framework helps structure the actual product development.

Some frameworks, such as the fuzzy front end (FFE) approach, define the steps that should be followed early in the development process, but leave it up to the product development team to decide in which order the steps make the most sense for the specific product that's being developed. The five elements of FFE product development are as follows:

Identification of design criteria entails brainstorming possible new products. Once an idea has been identified as a prospective product, a more formal product development strategy can be applied.

Idea analysis requires a closer evaluation of the product concept. Market research and concept studies are

conducted to determine if the idea is feasible or within a relevant business context to the company or to the consumer.

Concept genesis involves turning an identified product opportunity into a tangible concept.

Prototyping includes creating a rapid prototype for a product concept that has been determined to have business relevance and value.

Product development requires ensuring the concept is viable and has been determined to make business sense and have business value.

Other frameworks, like design thinking, have iterative steps that are designed to be followed in a particular order to promote creativity and collaboration. The five components of design thinking are as follows:

- **Empathise**. Learn more about the problem from multiple perspectives.
- **Define**. Identify the scope and true nature of the problem.
- **Ideate**. Brainstorm solutions to the problem.
- **Prototype**. Weed out unworkable or impractical solutions.
- **Test**. Solicit feedback.

How to create a product development plan

The product development plan may change, depending on the organization creating it. However, a general plan should include the following steps:

- **Identify a product need and business case.** Using practices like test marketing and surveys, organizations can gauge interest in a product. This helps ensure the product has a strong reason to be created.
- **Create a product vision**. This includes coming up with the project's scope, purpose for the product, what it does, who it's for and the product design, while also crafting guiding principles for the upcoming work.
- **Create a roadmap.** Assess the project as a concept first to ensure good design work, then begin crafting the roadmap. The roadmap aids in identifying what goals should be developed first. Implementation teams create schedules, break down significant portions of the project into sprints and generate iterations of the product.
- **Begin implementing the roadmap.**Teams can then start implementing the project, following the

roadmap. Iterations of the product can be made, reviewed and improved upon. This helps identify weak areas of the product and enables development teams to fix and improve the product.

- **Continue with development and assessments.** Development teams can work on enhancements and changes to the product. In this step, feedback can be gathered from customers to change the product based on customer needs.

Stakeholders should also be included in these steps to ensure their needs and requirements are being met or addressed.

Top Sources of Getting New Product Ideas!

Idea generation:

Ideas may be generated in many ways. They can arise inside the organization and outside it; they can result from formal search procedures (e.g. marketing research) as well as informally: they may involve the organization in creating the means of delivering the new service product or they may involve the organization in obtaining rights to services product, like franchise. The sources of such ideas are many and have been illustrated in Figure 2.3

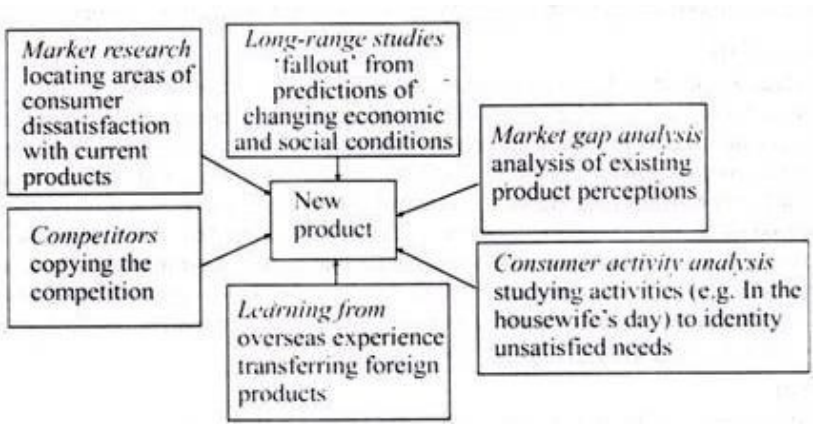


Fig :2.3 SOURCES OF NEW PRODUCT IDEAS

Excluded from this figure are ideas generated through the internal creative process. The creative process of developing new ideas has intrigued marketers although the process itself still defies detailed understanding. This has led, in some cases, to the adoption of techniques, like _synectics', brainstorming and lateral thinking to help improve the creative dimension of new product development.Idea Screening:

This stage is concerned with checking out which ideas will justify the time, expense and managerial

commitment of further research and study.

Two features usually associated with the screening phase are:

1. The establishment or use of previously agreed evaluative criteria to enable the comparison of ideas generated (e.g. ideas compatible with the organization's objectives and resources);

2. The weighing, ranking and rating of the ideas against the criteria used.

Screening systems range from the highly sophisticated involving the collection and analysis on computers of a mass of data to simple checklists of a few factors considered to be vital.

Concept Development and Testing:

Ideas surviving the screening process then have to be translated into product concepts. In the service product context this means concept development and concept testing.

(a) Concept Development:

This phase is concerned with translating the service product idea, where the possible service product is defined in functional and objective terms, into a service product concept, the specific subjective consumer meaning the organization tries to build into the product idea. Thus a building society in attempting to sell the idea of regular saving to young, unmarried people might attempt to market the ideas on the basis that participants would be saving towards house purchase and might receive preferential treatment with a later mortgage application.

(b) Concept Testing:

Concept testing is applicable in services contexts as well as in goods' contexts. Concept testing consists of taking the concepts developed after the stages of idea generation and idea screening and getting reactions to them from groups of target customers.

An associated stage of the development of the service product ideas is that of product positioning. Service product positioning is a concept increasingly widely referred to though it remains imprecisely defined, loosely used and difficult to measure.

Essentially positioning is the visual presentation of the image of an organization's service product in relation either to competitive service products or to other service products in its own mix. The principle underlying this method of presentation is that it enables service product attributes to be compared with competitive offerings and with the customer's perceptions of products relative to his or her needs.

Comparison of the services and the perceptions of the occupations of persons who will use them reveal the existence of prestige and non-prestige services which give useful insights for developing a promotional programme. Some services are best positioned directly against competition (e.g. tour operators). Other companies have developed effective strategies by deliberately not confronting competition directly.

- **Business Analysis:**

This stage is concerned with translating the proposed idea into a firm business proposal. It involves undertaking a detailed analysis of the attractiveness of the idea in business terms and its likely chances of success or failure.

A substantial analysis will consider in detail aspects like the manpower required to implement the new service product idea, the additional physical resources required, the likely estimates of sales, costs and profits over time, the contribution of the new service to the range on offer, likely customer reaction to the innovation and the likely response of competitors.

Obviously it is not possible to generate accurate forecasts and estimates and it is customary to build some degree of tolerance into the analysis to allow for the uncertainties and ambiguities involved. This stage may typically involve some initial technical and market research and initial timings and costing for a new service product launch.

- **Development:**

This stage requires the translation of the idea into an actual service product for the market. Typically this means that there will be an increase in investment in the project. Staff may have to be recruited or trained, facilities may have to be constructed, and communications systems may need to be established. The tangible elements of the service product will be designed and tested. Unlike goods the development stage of new service product development involves attention to both the tangible elements of the service product and the service product delivery system.

- **Testing:**

Testing of new service products may not always be possible. Airlines may introduce a new class of service on a selected number of routes or a bank may make a new service available initially on a regional basis like automated cash dispensers. But some new service products do not have such an opportunity. They must be available and operate to designed levels of quality and performance from their introduction.

- **Commercialisation:**

This stage represents or organization's commitment to a full-scale launch of the new service product. The scale of operation may be relatively modest like adding an additional service to an airline's routes or large scale involving the national launch of fast service footwear repair outlets operating on a concession basis.

In undertaking the launch, Kotler suggests four basic decisions that apply:

(a) When to introduce the new service product;

(b) Where to launch the new service product, whether locally, regionally nationally or internationally;

(c) To whom to launch the new service product usually determined by earlier exploration in the new service product development process;

(d) How to launch the new service product. Unit trusts for example may offer a fixed price unit on initial investments for a certain time period.With highly novel and innovative service products, organizations may be guided by the extensive literature and experience on innovation and diffusion. However like many areas of marketing most documented experience in this area has focussed upon tangibles rather than intangibles and innovation and diffusion knowledge in the service sector requires further empirical study.

A feature of new product development practices in recent years has been the growing experimentation and application of mathematical models.

Example:

The bank has tried to eliminate the possibility of product failure through testing wherever possible. Concept testing via direct consumer research and focus group' interviews are often used by research to determine the probable acceptability of the product.

If the service involves a significant financial exposure, it is not unusual for the bank to conduct an actual market test. This avenue is being utilised more and more as a means of reducing failure, correcting product flaws and establishing proper market segments.

Although the product development area is responsible for the entire cycle, introduction often becomes a total marketing responsibility. During this phase the bank embarks on extremely complete sales and skills training programmes. It is not unusual to tie a product launch to an employee incentive campaign. Sales promotion efforts may link a premium campaign to the new product.

Each affiliate has to opportunity to recommend a media programme which will most effectively sell the product in its community. This selection involves primarily the media mix, not the creative strategy. The

bank recognises the critical nature of the introduction phase and strives for maximum effectiveness by directing the right mixture of promotional tools at the right market.

Examples of product development

Taco Bell

Taco Bell has a unique approach to new product development, as its innovation team looks to grocery stores, social media and competitors for its inspiration.

- **Idea generation. T**he development team reviews 4,500 new product ideas each year.
- **Concept development and testing. T**he team generated 80 iterations of the Waffle Taco before deciding on the final one. Unfortunately, Taco Bell discontinued the Waffle Taco after only a year, replacing it with the Biscuit Taco.
- **Product technical design.** For the Doritos Locos Taco, the product team discovered a process to evenly distribute seasoning on the shells and contain cheese dust in the production process.
- **Test marketing.** Between 350-500 ideas end up in consumer tests.
- **Market entry.** Eight to 10 products end up on the national menu.

Roomba

Another example is the Roomba, an autonomous robotic vacuum cleaner sold by iRobot. An article in New York Magazine profiles the Roomba's creation by its inventor, Joe Jones. This article focuses on the early stages of product development, which ultimately led to the product's launch and success.

- **Idea generation.** The idea for Roomba originated with a do-it-yourself Lego challenge when Jones worked at the Massachusetts Institute of Technology Artificial Intelligence Lab. The challenge was to make something innovative from Legos.
- **Idea screening.** Jones showed initial concepts to companies -- Denning, Bissell and Proctor & Gamble -- but the companies declined to move forward.

Product technical design. After they invested $1-2 million in the project, due to personnel changes, SC Johnson decided to stop supporting the Roomba.

- **Market entry**. Robot continued to fund the project. In September 2002, less than a year after SC Johnson withdrew financial support, the Roomba launched.

2.6.1 PRICING

Pricing products and services

To maximise profits and achieve growth, you need to determine the right price for your products and services. Setting the right price will ensure that your customers are satisfied and that your business stays profitable.

- **Role of pricing**

If you get your pricing strategy right from the start, you're more likely to attract and keep customers and make a profit. Setting the wrong price can cause serious financial problems for your business.

- If you charge too much, you may price yourself out of the market.
- If you charge too little, you may not be able to cover your costs.

Talking about money with customers may feel uncomfortable, but your pricing decisions should be guided by your business plan and your marketing strategy. Also remind yourself:

- you're in business to earn a living and make a profit
- your customers will appreciate the value you provide
- it's much easier to lower prices than to raise them.

- **Research your pricing**

Good research will make you feel confident about pricing the products, services and experiences you offer. There are 3 aspects you need to investigate.

- **Determine your pricing**

Understanding different pricing strategies will help you choose the right approach for your business. This will depend on your business type and main goals (e.g. maximise profits, grow market share, reduce inventory levels, increase immediate cash flow). Pricing calculators

- Use our calculators to help you work out your prices.
- Read the instructions and examples.
- Type the numbers that are relevant to your business into the calculators.

Decide if this pricing will work for your business.

- **Pricing reviews**

Whether scheduled or in response to a specific change, a pricing review will enable you to make decisions based on accurate and current information.

- **Schedule reviews**

Consider scheduling formal price reviews (e.g. on a monthly, quarterly or half-yearly basis) to accommodate changes in, for example:

- the cost of running your business
- expectations of your customers
- new and existing competitors.
- Respond to changes
- You may need to review and adjust your pricing when there are changes:
- in your business (e.g. launching a new product)
- from your competitors (e.g. lowered prices)
- in the market (e.g. economic conditions).
- Stay informed about what's happening in your market, as this will affect your pricing.
- Keep customers informed

If you change your prices, make sure this is updated wherever your prices appear. Ensure you communicate the changes clearly to customers.

Keep a checklist of where prices are published, for example:

- sales kits
- price lists
- brochures
- websites.

Many customers will visit your website before making any direct contact with your business, so make sure it's up to date.

- **Pricing laws and regulations**

When setting your price and advertising your products and services, you must comply with the relevant laws and regulations. Here are a few to consider.Price-fixing laws

Price fixing is when 2 or more competitors (either formally or informally) agree on setting a price.

Price fixing is illegal in Australia under the **Competition and Consumer Act 2010.** This is a complex area with significant penalties, so make sure to:

understand how this Act directly applies to your business

ask your legal adviser to explain your obligations under this Act.

- **Predatory pricing**

Predatory pricing takes place when a business with significant market share intentionally reduces prices to damage or eliminate smaller competitors.

This is deemed to be anti-competitive behaviour, so reports can be made to the Australian Competition and Consumer Commission (ACCC).

- **Advertising regulations**

It's illegal to mislead the public when advertising your products and services.

If your advertising creates a misleading overall impression, it's likely to break the law. This could be about the price, value or quality. You can not rely on small print and disclaimers as an excuse for deceptive conduct.

2.6.2 OBJECTIVES

Companies that design and develop products are driven by two goals; one, to solve a consumer problem and two, to be profitable doing it. Many companies assume that shortening the development cycle time equals profitability, but is that always true? What if rapid development came at the expense of other business objectives like product performance or unit cost? The problem with many companies I have seen is that they are not aware of or do not fully understand the key objectives of product development and how each one impacts profitability.

The Four Key Objectives

The first step is knowing which objectives or parameters to quantify. Once the objectives are known, we can create models to determine how each objective affects the other and how the changes impact the profitability of the project. The models aren't complicated. They are simply rough estimates that can be used as a guideline to make the best decisions during trade-offs to maximize profitability.

The four key objectives that work the best and cover 99% of all development trade-off decisions are shown in the image below.

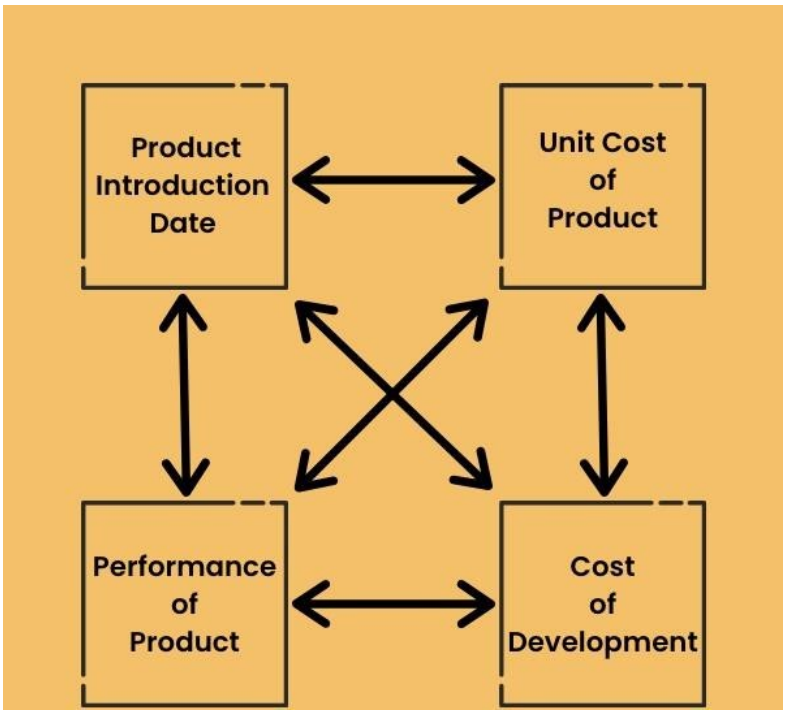


Fig : 2.4 Product Development Objectives

Managing new product development effectively depends on balancing the effort we put towards the 4 objectives. You'll notice that there are six trade-offs in the image above. This is because any project has multiple objectives that must be balanced against each other. There are a number of other criteria, but most fall under one of the 4 key objectives shown above.

- **Product Introduction Date**

The first objective or parameter is Product Introduction Date. This is measured as the date when the final product is first available for sale to customers.

Trade-off Example: an early Product Introduction Date might not be useful if the market conditions to make money on the product don't exist yet.

- **Product Unit Cost**

The second key objective is the unit cost of the product. This is the repeatable price at which the product will be sold once it hits the market. This measurement is usually the sum of the manufactured cost plus any variable costs that would factor into the gross margin.

Trade-off Example: In order to get a lower Unit Cost, the vendor has a higher Minimum Order Quantity which increases the lead-time for manufacturing, thereby affecting the Product Introduction Date. Going with high MOQ's for a low unit cost also increases the company's exposure to high repair and rework costs should the product quality be suspect.

- **Performance of Product**

The third objective, Product Performance, is one of the most useful measurable. This is the total revenue stream of the product over its lifecycle., a measurement that quantifies the cost of a delayed introduction date in terms of product performance. By plugging in different objectives like Unit Cost, or a product introduction date, you can see the effect they have on the lifecycle revenue very quickly.

Trade-off Example: The company wants to delay the introduction date of a product by 3 months, so they can add additional features. By plugging in the launch date, and delaying the onset of revenue by 3 months, a manager can see what the effect will be on lifecycle revenue versus the originally planned date. The change is typically not a linear relationship.

For example, if the planned launch date is 3 months late, depending on the angle of your ramp up curve, you might lose more than 30% of the sales for that year and a large percentage the next year. Depending on the market situation, you may lose sales every year for the remaining life of the product. Additionally, later release dates require additional development costs.

- **Cost of Development**

The fourth and last objective is the costs associated with development. This measurable usually includes the one-time costs associated with the development of the product and includes costs from Engineering, Manufacturing and Marketing.

Product Quality is important, yes. But it doesn't need to be broken out separately as it is a part of each of the four objectives. Product quality has a financial impact on all four objectives above.

For example, quality issues with engineering work during the development phase leads to rework, which increased development cost and impacts product introduction date through delays.

If manufacturers aren't thorough during the quoting phase, they may miscalculate raw material yields and eventually have to raise prices which affects the unit costs. In addition, they may not do a thorough Process FMEA which results in first production quality issues leading to additional repair, rework (COPQ). The poor quality in turn affects both product introduction and product performance.

So, in conclusion, product quality is an important objective, but is already baked into the 4 key objectives

of product development.

- **Making Trade-offs and Decisions**

By creating a baseline profit model, managers can change values depending on different scenarios like delayed introductions, higher unit costs, increased development costs and see the effect of those changes on the lifecycle profitability. Even if this is calculated roughly, it is still better than having no data at all. It provides a great framework for strategic decision making and making trade-offs. Most importantly, it puts data in your lap and makes meetings like gate and design reviews much quicker and less prone to subjective opinions.

The baseline model and the created variations help us create rules around decision making and converts all 4 product development objectives into the common metric of lifecycle profitability. If you attempt creating a model for yourself, my advice is to keep it simple and spend a few extra hours making it as accurate as possible.

2.6.3 Strategies

Product development strategy refers to the methods and actions used to bring new products to a market or modify existing products to create new business. Developing a product has several steps, from producing an idea to distributing products to customers. Each stage requires a strategy to be successful and generate revenue for a business.

Why is product development strategy important?

Product development strategy is important because it uses market research to develop a plan for success in selling products. Your overall strategy should include the methods and techniques you will use during each stage of product development. This can help you overcome obstacles and focus on the most successful strategies. Making plans for how to develop various products can also enable you to adjust existing products and grow your business.

What are the stages of product development?

Product development includes all aspects of producing innovation, from thinking of a concept to delivering the product to customers. When modifying an existing product to create new interest, these stages verify the potential success of the modifications at generating business. The seven stages of product development are:

1. Idea development: Idea development involves brainstorming for new products and ways to make existing products more relevant.

2. **Editing and selection: Du**ring the selection process, the product development team determines which ideas have the most potential to do well in the market.

3. **Prototype creation**: Once an idea has been selected, the company must create a prototype or draft version of its proposed product. This prototype can be used to determine if the product functions as intended and appeals to your target audience.

4. **Analysis**: At the analysis stage of product development, the company studies market research and evaluates the possible problems with the product.

5. **Product creation:** After incorporating notes from the analysis into the prototype, the finished product can be created.

6. **Market testing:** Before releasing the product to a wider audience, products are often released to a smaller market or focus group. The market testing phase includes evaluating customer feedback and the effectiveness of the product's marketing.**Commercialization**: The final stage of product development occurs when adjustments are made based on market testing and the product is released to the full market.

Benefits of product development strategy

Having a strong product development strategy can support your business's ability to turn an idea into a profitable product and then modify it to remain competitive within the market. Your product development strategy can reveal areas for improvement as well as which methods are most successful. To receive the most benefits from your product development strategy, consider how various techniques would work for each step and make adjustments based on your past experiences.

Product development strategies

Some companies may focus on adapting their current products while others may mostly create innovations, but both types of product development require a clear strategy to implement. Here are some useful product development strategies for introducing a product and remaining competitive within your market:

- **Change ideas**
- **Modify an existing product**
- **Increase product value**
- **Offer a trial**
- **Specialize and customize**

- **Create package deals**
- **Create new products**
- **Find new markets**

    - **Modify an existing product**

Creating a new version of an existing product with slight changes can provide your market with the motivation to purchase an upgrade. Modifying one of your existing products and focusing on the updates in your marketing influences customers to try the newer version of the product. This strategy focuses on determining which features consumers would like to see improved and making those changes.

- **Increase product value**

Many companies engage customers by including additional value with the purchase of a product. You can increase value by including a larger quantity of products, adding customer support or offering premium features. New customers may be drawn to your product because of the added benefits, while existing customers may purchase your products again to receive a better deal.

- **Offer a trial**

Offering a free or less expensive sample version of your product can convince customers to try your product who might not have otherwise purchased the full version. This method relies on the quality of the product by assuming that many of the customers who experience the free trial will purchase the full version. Offering a trial can show customers how they can benefit from the rest of your products.Specialize and customize

Many products can be specialized to target a specific customer group or customized to create a unique and personal gift. Allowing customers to personalize your product to fit their needs and lifestyle can encourage them to choose that product over a competitor who only offers a generic version.

- **Create package deals**

You can encourage customers to purchase more of your product by creating package deals. This strategy exposes customers to a variety of your products through sample packs or assortments that could solve different problems for the customer. Package deals can also introduce customers to a product they may not have otherwise purchased and encourage them to buy it in the future.

- **Create new products**

Another way to develop a product line is to create a new product that relates to your market. When creating new products, be mindful of what customers are looking for without discouraging them from

buying your other products. Any new products should supplement what your existing product does for the customer instead of replacing the original, encouraging customers to buy multiple products from your business.

- **Change ideas**

One strategy for developing a product can be to change your product idea. If a market is not responding to innovation, the company may consider devoting their resources to researching what that market wants.
Not all ideas will result in a successful product, so a willingness to change ideas when needed can be an effective strategy.

- **Find new markets**

Many products can be successfully sold in multiple markets. One product development strategy is to consider marketing an existing product to a different market or demographic. This could include targeting businesses instead of individual consumers, marketing toward a different age group or expanding your product geographically.

2.6.4 FAIRNESS AND ETHICAL ISSUES

Product is the first element in the marketing mix. Various decisions are involved in the Product element such as:

• **Quality of product**

• **Safety of the product**

• **Packaging and Branding Issues**

• **Product Warranties**

These issues are of vital importance and do have certain ethical obligations associated with them:

Quality of the product: The demand for high–quality products is the key issue. It is the general responsibility of the business to ensure that the quality of a product measures up to the claims made about it and to reasonable consumer expectations.

• **Safety of product: t**he business should give safety the priority warranted by the product. However, the business often bases safety considerations strictly on cost. If the margin of safety can be increased without significantly disturbing budgetary considerations, then it is fine but if not then safety questions appear.

Two factors of safety are associated with cost which cannot be ignored:

- **The seriousness of the injury the product can cause.**
- **The frequency of its concrescence.**

When a product scores high on both the seriousness and frequency tests, it warrants the highest priority as a potential safety hazard.

The safety of a product can also be ensured by monitoring the manufacturing process itself by the business. The companies should also periodically review the working conditions and competence of key personnel.

The safety engineers should ensure product safety.

• **Packaging and Branding Issues:** Ethical issues in the product also involve two other major attributes of the product i.e. the Packaging and Branding Attribute.

It is the ethical responsibility of the manufacturer to provide clear, accurate and adequate information regarding the labelling and packaging of products. Nothing is more misleading than environmental labelling. Manufacturers label products as ―biodegradable‖, ―environmentally safe‖ or ―recyclable‖ without defining the terms.

The packaging should be such that the manufacturer's real is ensured and that the product quantity should also be exactly measured and provided.

There should not be any misleading information regarding the quantity and quality of the product.

• **Product Warranties:** one way that business assumes responsibilities to consumers for product quality and reliability is through warranties, which are obligations to purchasers that sellers assume. Ethics relates to two kinds of warranties.

• **Express Warranties: t**hese are the claims that sellers explicitly state for example, that a product is ―shrink-proof‖ or will require no maintenance for some years. The moral/ethical concern of the business is whether a product lives up to its statements. Express warranties include assertions about the product's character, assurances of product durability, and other statements on warranty cards, labels, wrappers and packages or in the advertising of the product.

• **Implied Warranties: i**nclude the claim, implicit in any sale, that a product is fit for its ordinary, intended use. The law calls this the implied warranty of merchantability. It's not a promise that theproduct will be perfect rather a guarantee that it will be of passable quality or suitable for the ordinary purpose for

which it is used. Implied Warranties are more specific.

Thus, ethics demands that the manufacturers must fulfill the product warranty needs.

2.7 Unit End Questions

A. Descriptive Questions

Short Questions:

1. Define service products?
2. Explain what is defining core?
3. Describe briefly about re-engineering of service processes?
4. What do you understand by pricing of new service products?
5. What is ethical issues of goods and services?

Long Questions:

1. What is a developing service products ?Explain it with pricing planning?
2. Describe physical goods as a source of new service ideas?
3. What is defining core and supplementary products?
4. Describe about the designing service concept?
5. Explain pricing , it's objectives , strategies and ethical issues of product development?

B. Multiple Choice Questions

1. Customer satisfaction can be defined by comparing

a) Predicted service and perceived service

b) Predicted service and desired service

c) Desired service and perceived service

d) Adequate service and perceived service

2. Which of the following is not a benefit of customer satisfaction?

a) The firm is more insulated from price competition

b) The firm provides a positive work environment for its employees

c) Positive word-of-mouth is generated from satisfied customers

d) Satisfied customers make purchases more frequently

3. During a service recovery effort, the employee promptly refunded the customers money, but threw the money at the customer. As a result, the recovery effort violated the customer's _____justice needs.

a) Interactional

b) Ethical

c) Social

d) Procedural

4. Which of the following would not be considered a tangible clue?

a) The appearance of employees

b) The appearance of the firm's physical facilities

c) The smile on an employee's face

d) The quality of instruction in an educational setting.

5. Customer satisfaction can be defined by comparing

a) Predicted service and perceived service

b) Predicted service and desired service

c) Desired service and perceived service

d) Adequate service and perceived service

Answers

1-c, 2-b,3-c,4-d, 5-c

2.8 References

1. Lovelock, C., & Wirtz, J. (2007). *Services Marketing: Textbook*. Publisher.
2. Lovelock, C., & Wright, L. (1999). *Principles of Service Marketing and Management*. Publisher.
3. Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services marketing: Integrating customer focus across the firm.* McGraw-Hill Education.
4. Gronroos, C. (2007). *Service management and marketing: A customer relationship management approach* (3rd ed.). Wiley.

Certificate/Diploma Course in Retail and Sales Management

UNIT – 3 Segmentation, Targeting and Positioning

Structure

3.0 Learning Objectives3.1introduction **to** segmentation

3.2 Targetting and Positioning

3.3 Introduction to STP Strategy For Services:

3.4 Need For Segmentation of Services,

3.5 Bases of Segmentation Services,

3.6 Segmentation Strategies in Service Marketing,

3.7 Need for Targeting and Positioning of Services,

3.8 Positioning Strategies for Services,

3.9 Positioning Through Product/Service Delivery Strategies,

3.10 Positioning Through Pricing Strategies,

3.11 Positioning Through Distribution Strategies,
3.12Positioning Through Sales Promotion and Advertising,
3.13 Service Differentiation Strategies.

3.14 Unit End Questions

3.15 References

3.0 Learning Objectives

After studying this unit, you will be able to:

- Outline the basics of segmentation,targeting and positioning
- Summarize the STP strategy

- Summarize the positioning through advertising .
- Describe the positioning through pricing strategy

3.1 Introduction to segmentation

Market is composed by the customers and sellers, and different customers may have different needs, characteristics, behavior or buying attitudes. Each customer is a separate entity, they have unique wants. Therefore, sellers may divide a market into different groups of individual markets. Every consumer group is a market segment, each segment are the tendency of buyers with similar wants or needs. They divide the market into distinct groups who have distinct needs, wants, behavior or who might want different products and services. This action is known as marketing segmentation.

The modern concept of market segmentation was put forward by Phillip Kotler, who states that market segmentation is the ―sub dividing of a market into homogenous subsets of customers, where any subset may be conceivably be selected as a market target to be reached with a distinct marketing mix―. It is a concept in economics and marketing. Marketing segmentation is marketers through market research, based on the wants and desires of customers, differences of their buying behavior and purchasing habits, divide a whole market into a number of individual groups in the market classification process. Segmentation allows the wine company to better satisfy the needs of its customers. Company only through the market segmentation, select the most favourable market area in order to achieve economic profits. If more detailed to segmented market, it can be two parts, consumer market segmentation and business market segmentation.

Market segmentation is the company needs of the market diversity and differences of consumer behavior, all current and potential customers in the whole market, classified as a number of similar characteristics of the customer groups, in order to determine their target market. It helps wine companies understand consumer requirements and then satisfy them.

In order to effectively segment a market, the various segments must have certain characteristics. Firstly, they need to be easily identifiable, with the attributes which differentiate them from other segments being easy to identify and measure. They also need to be accessible, through viable communication and distribution channels that are strongly associated with the segment. A segment should also be large enough that a company can make a profit from serving them, and relatively stable to allow the marketing time to work. Finally, they need to be unique, and respond differently to different marketing approaches. If they do not respond differently to another segment, then they are effectively part of the same segment. As such, market segmentation aims to provide groups of people which are as similar as possible, but as

different as possible from other segments.



Fig 3.1 :Market Segmentation

The opposite of market segmentation is mass marketing, whereby companies treat a market as being homogenous, in other words everyone has the same needs and wants. As a result, companies simply a marketing mix designed to appeal to the entire market. This allows significant economies of scale in terms of mass production and communication, and can be very effective for dominant products such as Coca Cola or KFC, who can appeal to a large section of a market. However, in general customer needs and wants will be different depending on customers' ages, socio economic grouping, gender and other factors, hence mass marketing will not appeal to all customers.

- **Consumer Market Segmentation**

The consumer market dominated in the market structure. Its development, directly or indirectly affect the industrial development of the market and the overall socio-economic development. The main factors affecting the consumer market is consumer demand. Consumer demand for the quantity and composition of population impact, but also by the quality of goods and variety of colours, but the most important factor is people's purchasing power. It directly related to people's income level. Consumer markets can be segmented in four main consumer characteristics: geographic, demographic, psychographic and

behavioural segmentation.

Geographic segmentation, it divides the market into several geographic parts based on national, regional, urban, rural, climate or topography.

Demographic segmentation, it divides the market into groups such as age, gender, occupation, income, family size, family type, family life cycle, nationality, ethnicity, religion, social class. These factors are the most popular areas for a company to segment customers. Consumer demands always change with age. So many companies use age segmentation to position their product. Such as KFC targets to young people and children. Clothes Company offer different style clothes to the different generations. Income segmentation is often used by many companies as cars, clothing, luxury furniture and jewellery. Income changes will directly affect consumers' desire and expenditure patterns. High-income consumers will buy more expensive products than low-income consumers.

Psychographic segmentation, it is according to consumer lifestyle, personality, buying motives and other variables, divided into different groups. More and more enterprises, such as clothing, cosmetics, furniture, entertainment, paid attention to people's lifestyle segmentation. Lifestyle is that people consumption, entertainment, specific habits and patterns, different lifestyles will have different needs preferences. For example, British clothing company put some women classified as ―simple-type women‖, ―fashion-type women‖ in two types. Namely, the designers will design different styles, colour and material of the garment.

If the market divided by behavioural segmentation, it is according with the consumer purchase or using time of a commodity, purchase volume, purchase frequency, brand loyalty and other variables.
Purchasing many commodities have time limit. For instance, Airlines, travel agency during summer vacation to advertise and implement concessionary fares to attract people travel by plane; businesses doing great quantity advertising about air-conditioning in the hot summer effectively increase sales. Purchase frequency segmentation, such as pencil, primary scholars often buy, senior scholars in normal and the workers or peasants not always buy.

- **Business Market Segmentation**

Industrial market is a business strategic and tactical decision-making, especially in the marketing. Many markets can be segmented into five types: non-users, ex-users, potential users, first-time users and regular uses of products and services. The objective for business market segmentation is to identify the most significant differences among current and potential consumers that will influence their purchase decisions or buying behavior. This will allow the marketers to classify products prices, programs, or solutions for maximum competitive profit. Industrial market can be segmented geographically and behaviourally which

same with consumer market. In industrial market, patterns of consumption behavior can be a basis for segmentation, such as buying statues, usage rate and loyalty status.

Levels of Market Segmentation

We have four levels of segments

1. Segments
2. Niches
3. Local areas
4. Individuals.

1. Segment Marketing

A market segment consists of a large identifiable group within a market, with similar wants, purchasing power, geographical location, buying attitudes, or buying habits. For example, an automaker may identify four broad segments in the car market: buyers who are primarily seeking (1) basic transportation, (2) high performance, (3) luxury, or (4) safety.

Because the needs, preferences, and behavior of segment members are similar but not identical, marketers urge to present flexible market offerings instead of one standard offering to all members of a segment. A flexible market offering consists of the product and service elements that all segment members value, plus options (for an additional charge) that some segment members value. For example, Delta Airlines offers all economy passengers a seat, food, and soft drinks, but it charges extra for alcoholic beverages and earphones.

Segment marketing allows a firm to create a more fine-tuned product or service offering and price it appropriately for the target audience. The choice of distribution channels-and communications channels becomes much easier, and the firm may find it faces fewer competitors in certain segments.

2. Niche Marketing

A niche is a more narrowly defined group, (typically a small market whose needs are not being well served). Marketers usually identify niches by dividing a segment into sub-segments or by defining a group seeking a distinctive mix of benefits. For example, a tobacco company might identify two sub-segments of heavy smokers: those who are trying to stop smoking, and those who don't care.

In an attractive niche, customers have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the niche gains certain economies through specialisation; and the niche has size, profit, and growth potential. Whereas segments are fairly large and normally attract several competitors, niches are fairly small and may attract only one or two rivals. Still, giants such as IBM can and do lose pieces of their market to niches: Dalgic labeled this confrontation ―guerrillas against gorillas.‖

3. Local Marketing

Target marketing is leading to some marketing programs that are tailored to the needs and wants of local customer groups (trading areas, neighbourhoods, even individual stores). Citibank, for instance, adjusts its banking services in each branch depending on neighbourhood demographics; Kraft helps supermarket chains identify the cheese assortment and shelf positioning that will optimise cheese sales in low-income, middle-income, and high-income stores and in different ethnic neighbourhoods.

Those favouring local marketing see national advertising as wasteful because it fails to address local needs. On the other hand, opponents argue that local marketing drives up manufacturing and marketing costs by reducing economies of scale. Moreover, logistical problems become magnified when companies try to meet varying local requirements, and a brand's overall image might be diluted if the product and message differ in different localities.

4. Individual Marketing

The ultimate level of market segmentation leads to ―segments of one,‖ ―customised marketing,‖ or ―one-to-one marketing.‖For centuries, consumers were served as individuals: The tailor made the suit and the cobbler designed shoes for the individual. Much business-to-business marketing today is customised, in that a manufacturer will customise the offer, logistics, communications, and financial terms for each major account.

3.2 Targeting and positioning

Meaning of segmentation, targeting, and positioning in marketing

Segmentation, targeting, and positioning are also known as the STP marketing model. The three concepts go hand in hand when making decisions about a firm's marketing processes.



Fig 3.2 STP model for marketing

Market segmentation

The first step is market segmentation.

Market segmentation divides the market into subgroups of individuals who share similar needs, wants, and characteristics.

It is the marketer's goal to identify the appropriate subgroups of consumers. There are four ways of segmenting consumers

- **Demographic segmentation**

This is one of the most widely used segmentation methods. Demographic segmentation divides consumers into groups based on characteristics such as:

• Age.

• Sex.

• Income.

• Family size.

• Occupation, etc.

- **Geographic segmentation**

This divides the market based on geographical aspects. Geographic segmentation can be a helpful tool for marketers, as certain customers from different parts of a country could have different wants and needs.
Geographic segments include:

• Country.

• City.

• Neighborhood.

• Climate.

- **Psychographic segmentation**

This looks at the intrinsic traits of the target consumer.

• Style.

• Values.

• Personality traits.

- **Behavioural segmentation**

This breaks down the market into subgroups based on consumers' behaviour when making purchase decisions. It can be based on:

• Occasions.

• User status.

• Usage rate.

• Loyalty.

Targeting

The second step includes deciding who to target.

Targeting involves deciding which customer segment or market the firm should be aiming at.

Once a firm identifies all market segments, it must determine which ones to target and how many. This strategy aims to identify small, well-defined target groups.

Imagine you are working as a marketing manager for a clothing retailer. Instead of deciding to target all women, you would specify that you want to target women between the ages of 25-30 who purchase new clothes at least once every two weeks. To find the appropriate target market, you need to evaluate the market segment based on its attractiveness, and whether the firm has the resources and capabilities to do this effectively.

Positioning

Finally, the company has to position its product in the market.

Positioning involves determining where your brand or product stands affecting others in the market.

Positioning is a vital part of marketing strategy, as it influences how customers perceive your product offering. It is directly related to your value proposition.

The value proposition is the value a business promises to bring to its customer when buying a product or service.

The STP model comes down to a marketer making two crucial decisions: which customers should we serve? And how should we serve those customers? Market positioning is the last step in the decision-making process. The business has to decide how customers will view its product and how it will compete in the chosen market segment.

Why is segmentation, targeting, and positioning important in marketing?

Segmentation, targeting, and positioning are essential elements of marketing strategy. All three concepts are prerequisites for developing the marketing mix. These steps are necessary for understanding customers and the product offering better. It also allows businesses to understand which customers they should focus their marketing strategy on and how they can make their product the most successful from a marketing point of view.

Segmentation is essential for firms as it allows them to understand their market better. During

segmentation, customers are divided into smaller subsets based on shared characteristics, which provides insight into the different types of customers purchasing the firm's products or services.

Targeting is also important because it is essential to select which customer segment is most attractive from a marketing perspective. This customer segment, or segments, will be the ones you focus your marketing on.

Finally, positioning the product is crucial because it determines how customers will view the product or service compared to those of competitors. This step helps businesses define their product offerings and the value they bring to their customers.

Relationship between segmentation, targeting, and positioning

The model begins with segmentation, in which consumers are divided into subsegments or subgroups. Each subgroup includes a group of customers with similar characteristics, either demographically, geographically, psychographically, or behaviourally.

The next step is targeting, in which the firm decides which market segment it wants to target. Once the organisation identifies all market segments, it chooses the most attractive one; the one aligned with the firm's objectives and resources.

Finally, the firm needs to decide how it will serve its customers. During this process, the organisation needs to define its product differentiation strategy. This strategy includes figuring out what makes the product or service different from competitors' products and services. Then, it is time for market positioning. During this step, the firm needs to determine how they want customers to perceive the product and position this product for each target segment.

Market segmentation, targeting, and positioning examples

Before we conclude today's lesson, let's take a look at some market segmentation, targeting, and positioning examples.

- **B2B market segmentation, targeting, and positioning**

In the business-to-business (B2B) context, the marketing STP model is equally as essential as it is in business-to-consumer (B2C) contexts.

For example, Microsoft Teams is a B2B company. It provides a platform businesses can use primarily for inter-organizational communication. Teams' competitors include Google Meet, Slack, and Zoom. As a result, Microsoft Teams segments its customers into four main segments: home (for communication with

friends and family), business (for smaller businesses), enterprise (for larger firms), and education (for schools and universities). Thus, Teams segments its customers based on buyer characteristics and targets each segment with a different plan suited to their needs.

Case study on market segmentation, targeting, and positioning

let's direct our attention to The Coca-Cola Company, which uses a variety of segmentation tactics to reach broad audiences.

First, Coca-Cola segments its customers geographically, based on their location. For example, Coca-Cola launched its 'Share a Coke' campaign in Australia in 2011.1 The campaign featured the slogan "Share a Coke with" printed on Coca-Cola bottles in addition to a variety of the most popular names printed on each bottle next to the slogan. The campaign was so successful that the company decided to launch it in multiple countries worldwide, including the United Kingdom, China, Spain, etc. Of course, Coca-Cola had to conduct market research to discover which names were the most popular in each country. The most popular names in Australia might have worked in the UK; however, the campaign would not have proven successful in China or Spain if the Coke bottles had English names printed on them. As a result, this is an example of how Coca-Cola segments its customers geographically.

Coca-Cola also uses a variety of tools to target customers. For example, it targets more health-conscious consumers with its Coca-Cola Zero and Coca-Cola Diet products whereas average customers. Bottle sizing also plays a role in the company's targeting. For instance, its regular-sized cans are targeted at individuals who want to grab a drink quickly. On the other hand, the company targets families with its larger, 1.5-2 L bottles.

Finally, Coca-Cola positions itself as a refreshing drink that brings joy to customers. It is positioned as a thirst-quenching drink that customers can buy on the go and a high-quality soft drink to share with family and friends.

Market Segmentation, Targeting, and Positioning - Key Takeaways

• Segmentation, targeting, and positioning make up the STP marketing model.

• Segmentation involves dividing the market into subgroups based on demographic, geographic, psychographic, and/or behavioral characteristics.

• Targeting involves selecting which customer segments the firm should target, i.e., the most attractive segment.

• Positioning influences how customers perceive a product or service. During this stage, the business needs to decide how it wants customers to view its product compared to competitors' products.

• The STP marketing model is a process that links each step.

• Segmentation, targeting, and positioning are prerequisites for the marketing mix.

3.3 introduction to stp strategy for services

What is STP marketing and what role does it play in boosting conversions and revenue? We look at the Segmentation, Targeting, Positioning framework illustrated by real-life examples.

Segmentation targeting positioning marketing is a core concept in modern-day marketing. Without it, marketing campaigns would be generic, have little to no personalization, and overall would not be able to convert at a level most businesses would deem effective.

Let's delve into the intricacies of the STP Model and see how implementing this framework into your eCommerce business can yield amazing results.

What is STP marketing?

STP marketing is an acronym for Segmentation, Targeting, and Positioning – a three-step model that examines your products or services as well as the way you communicate their benefits to specific customer segments.

In a nutshell, the STP marketing model means you segment your market, target select customer segments with marketing campaigns tailored to their preferences, and adjust your positioning according to their desires and expectations.

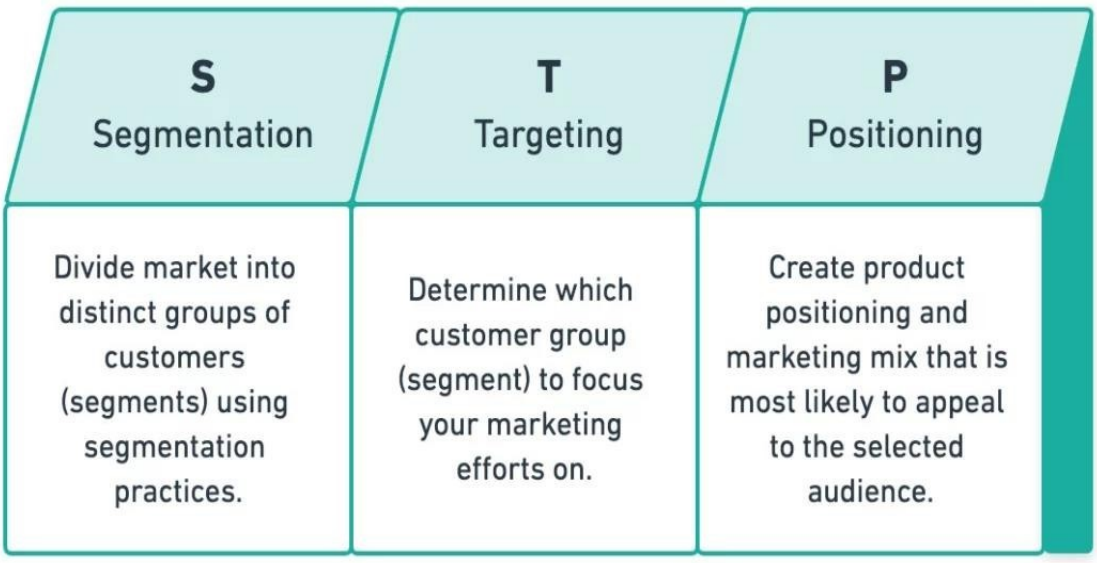


Fig 3.3 STP MARKETING MODEL

STP marketing is effective because it focuses on breaking your customer base into smaller groups, allowing you to develop very specific marketing strategies to reach and engage each target audience.

In fact, 59% of customers say that personalization influences their shopping decision and another 44% said that a personalized shopping experience would influence them to become repeat customers of a brand.

STP marketing represents a shift from product-focused marketing to customer-focused marketing. This shift gives businesses a chance to gain a better understanding of who their ideal customers are and how to reach them. In short, the more personalized and targeted your marketing efforts, the more successful you will be.

The STEP Formula

If you are looking for a simple way to remember and summarize the STP marketing concept, the acronym STEP is extremely useful:

Segmentation + Targeting Equals Positioning

This formula clearly illustrates that each segment requires tailored positioning and marketing mix to ensure its success. Let's take a closer look at each of the three steps in the STP marketing model.

Segmentation

The first step of the STP marketing model is the segmentation stage. The main goal here is to create various customer segments based on specific criteria and traits that you choose. The four main types of audience segmentation include:

- **Geographic segmentation:** Diving your audience based on country, region, state, province, etc.
- **Demographic segmentation:** Dividing your audience based on age, gender, education level, occupation, gender, etc.
- **Behavioral segmentation**: Dividing your audience based on how they interact with your business: What they buy, how often they buy, what they browse, etc.

Psychographic segmentation: Dividing your audience based on ―who‖ your potential customer is: Lifestyle, hobbies, activities, opinions, etc.



Fig 3.4 Stp Stages

Targeting

Step two of the STP marketing model is targeting. Your main goal here is to look at the segments you have created before and determine which of those segments are most likely to generate desired conversions (depending on your marketing campaign, those can range from product sales to micro conversions like email signups).

Your ideal segment is one that is actively growing, has high profitability, and has a low cost of acquisition:

- **Size**: Consider how large your segment is as well as its future growth potential.
- **Profitability**: Consider which of your segments are willing to spend the most money on your product or service. Determine the lifetime value of customers in each segment and compare.
- **Reachability**: Consider how easy or difficult it will be for you to reach each segment with your marketing efforts. Consider customer acquisition costs (CACs) for each segment. Higher CAC means lower profitability.

There are limitless factors to consider when selecting an audience to target – we'll get into a few more later on – so be sure that everything you consider fits with your target customer and their needs.

Positioning

The final step in this framework is positioning, which allows you to set your product or services apart from the competition in the minds of your target audience. There are a lot of businesses that do something similar to you, so you need to find what it is that makes you stand out.

All the different factors that you considered in the first two steps should have made it easy for you to identify your niche. There are three positioning factors that can help you gain a competitive edge:

- **Symbolic positioning:** Enhance the self-image, belongingness, or even ego of your customers. The luxury car industry is a great example of this – they serve the same purpose as any other car but they also boost their customer's self-esteem and image.
- **Functional positioning:** Solve your customer's problem and provide them with genuine benefits.
- **Experiential positioning: F**ocus on the emotional connection that your customers have with your product, service, or brand.

The most successful product positioning is a combination of all three factors. One way to visualize this is by creating a perceptual map for your industry. Focus on what is important for your customers and see where you and your competitors land on the map.



Fig 3.5 A perceptual map of popular clothing retailers

Benefits of STP marketing

If you aren't already convinced that STP marketing is going to revolutionize your business, we're breaking down the key benefits that STP marketing has over a traditional marketing approach.

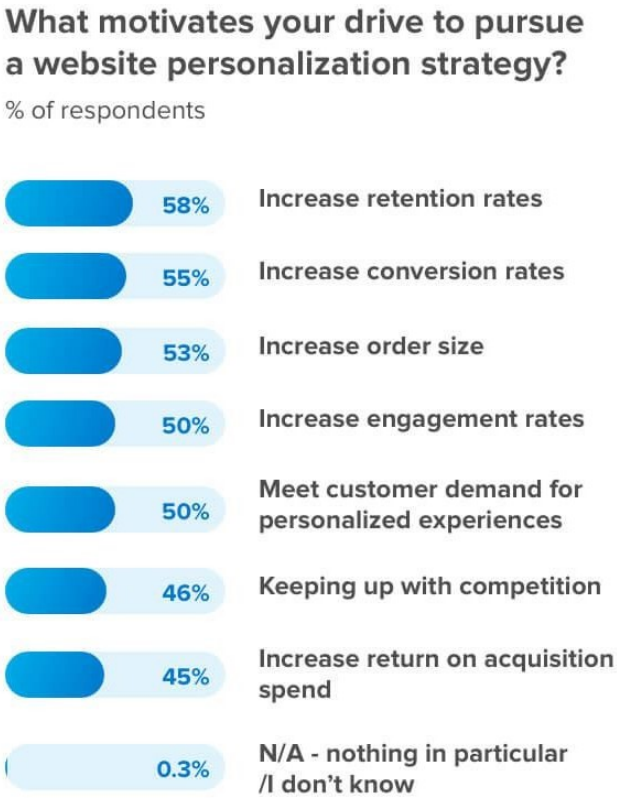
Because STP focuses on creating a precise target audience and positioning your products/services in a way that is most likely to appeal to that audience, your marketing becomes hyper-personalized.
With personalization:

- Your brand messaging becomes more personal and empathetic because you have your customer personas and know exactly whom you're talking to;
- Your marketing mix becomes more crystalized and yields higher return on investment because you're no longer wasting budget on channels that your audience simply ignores;
- Your market research and product innovation-become more effective because you know exactly whom to ask for advice and feedback in the development phase.

Recent research shows that eCommerce leaders are adopting personalization at an unprecedented rate – 74% of eCommerce sites now claim to have now adopted some level of personalization strategy. Their reasons?

Fifty-eight percent found that personalization helps increase customer retention, 55% cited conversion and 45% found that personalization actually helped minimize the cost of new customer acquisition.

Fig 3.6 A website strategy



Finally, STP marketing levels the playing field. The framework allows small businesses and startups to find success in their niche markets when they normally wouldn't have the reach to compete with the larger whole-market businesses in their industry.

STP marketing examples: The Cola Wars

STP marketing has been around for a long time – and it has been effective for just as long. We're going to take a look at a real-world example of STP marketing so you can see how it has worked historically in increasing conversions and revenue.

Back in the 1980s, when Pepsi-Cola was trying to claim some of the market share from Coca-Cola, Pepsi used segmentation to target certain key audiences. They focused on an attitude and loyalty segmentation approach and divided the market into three consumer segments:
Consumers with a positive attitude to the Coke brand who were 100% loyal to Coke.
Consumers with a positive attitude to the Pepsi brand who were 100% loyal to Coke.
Consumers with a positive attitude to both brands, with loyalty to both, who switched their purchases between both brands.

Pepsi had always focused their marketing efforts on the third segment, as it was the most attractive and had the highest return on investment. Focusing on customers loyal to Coke was considered a waste of time and money, as they were unlikely to change their purchasing habits.

However, that all changed with the launch of New Coke in 1985…

The new iteration of Americas' favorite beverage missed the spot with a lot of loyal consumers, so Pepsi swopped in. In fact, as Mental Floss points out, ―Coke's headquarters received upwards of 1,500 calls a day, up from the usual 400, with virtually all of them complaining about the change.‖

Sensing the change in consumer sentiment, Pepsi began targeting loyal Coke drinkers. The rival brand also refocused its positioning – Pepsi started drumming up the fact that Coca-Cola, supposedly, changed its classic Coke with New Coke to resemble more the taste of Pepsi. Their marketing campaigns were brutal (well, in today's terms at least)

That same year, Pepsi announced a 14% spike in overall product sales. Pepsi was able to use STP marketing strategies to increase their market share and convert Cola-loyal customers to Pepsi-lovers.

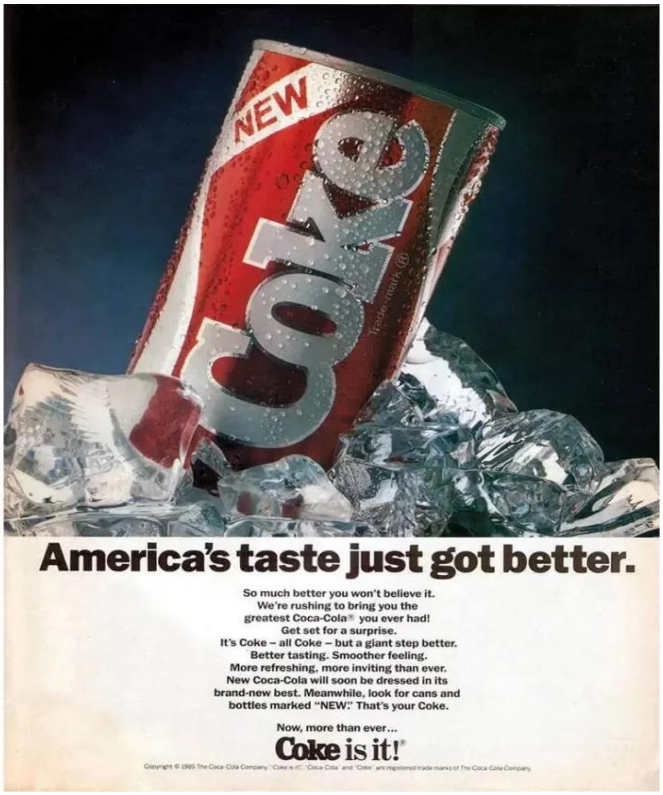


Fig 3.7 THE COLA WARS

How to create an STP marketing strategy: The full STP model

We covered the three stages of the STP marketing model, looked at the benefits and examples of this approach. While this provides you with an excellent overview of the concept, we want to get into the detail of creating an STP marketing strategy that serves your business.

Below you will find 7 steps to creating a solid marketing strategy using the full STP model.

1. Define the market

The global market is far too big and far too vast for anyone – even the biggest corporation with the most resources – to address. That's why it's important to break it down into smaller chunks and clearly define the part you are going after.

Typically, to evaluate your business opportunity, you will need to define your TAM, SAM, and SOM: Total Available Market, Serviceable Available Market, and Serviceable Obtainable Market.

How to create an STP marketing strategy: The full STP model

We covered the three stages of the STP marketing model, looked at the benefits and examples of this approach. While this provides you with an excellent overview of the concept, we want to get into the detail of creating an STP marketing strategy that serves your business.

Below you will find 7 steps to creating a solid marketing strategy using the full STP model.

1. Define the market

The global market is far too big and far too vast for anyone – even the biggest corporation with the most resources – to address. That's why it's important to break it down into smaller chunks and clearly define the part you are going after.

Typically, to evaluate your business opportunity, you will need to define your TAM, SAM, and SOM: Total Available Market, Serviceable Available Market, and Serviceable Obtainable Market.

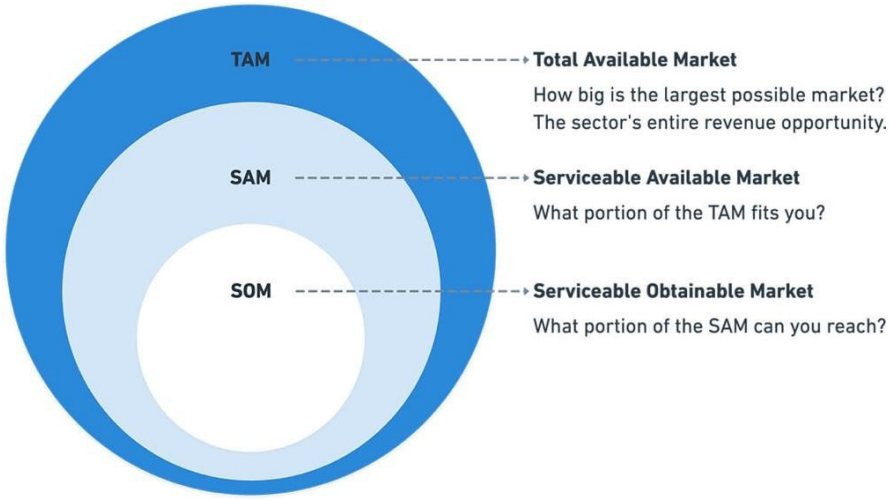


Fig 3.8 TAM,SAM,SOM

Because their service offering was targeted more at the budget travelers who were using online booking engines to find their stay. In this case, the SAM was valued at $532 million dollars. Lastly, their SOM

came in at $10.6 million dollars and signified the revenue obtainable for Airbnb.

Similarly with a consumer product, we can look at Diet Coke and say that its TAM would include the total beverage market. Its SAM would narrow it down to soft drinks, and SOM would zero in on the carbonated sugar-free drinkers out there.

There are several routes you can choose when defining a market. You can do so by:

- Industry classification (agriculture, retail, transportation, etc.
- Product category (apparel, health and beauty, food and beverage, etc.)
- Country (United States, United Kingdom, etc.)

2. Create audience segments

Now that you've adequately defined your target market, it's time to segment it using geographical, demographic, behavioral, and psychographic variables.

Each segmentation variable helps you tap into a different aspect of your audience and when you use them in unison you can create niche segments that really make an impact on your overall marketing effort.

For example, if you split your serviceable obtainable market into men vs women (demographic variables) you are still left with a pretty broad audience segment. However, if you start layering other segmentation variables on top, you can create a precise audience that you can make the biggest impact on.

Perhaps you go after women (demographics) in the United States (geographics) who prefer to spend money on luxury products (psychographics) who follow you on social media or have visited your website in the past (behavior).

As you can see, this layering method creates a hyper-focused audience segment that allows you to create an extremely personalized experience. And as we mentioned before, personalization has a huge impact on the success of your marketing efforts.

3. Construct segment profiles

When you've landed on your viable market segments, it's time to develop segment profiles. Segment profiles are very similar to your ideal customer personas but they act as subsets of your main persona – they are detailed descriptions of the people in each segment.

Describe their needs, behaviors, demographics, brand preferences, shopping traits, marital status, and any other characteristics. Each profile should be as detailed as possible to give you and your business a good

understanding of the potential customers within each segment. This will allow you to compare segments for strategy purposes.

4. Evaluate the commercial attractiveness of each segment

Cross-referencing your findings with available market data and consumer research will help you assess which of your constructed segments can bring in the biggest return on your investment. Consider factors like segment size, growth rates, price sensitivity, and brand loyalty.

With this information, you will be able to evaluate the overall attractiveness of each segment in terms of dollar value.

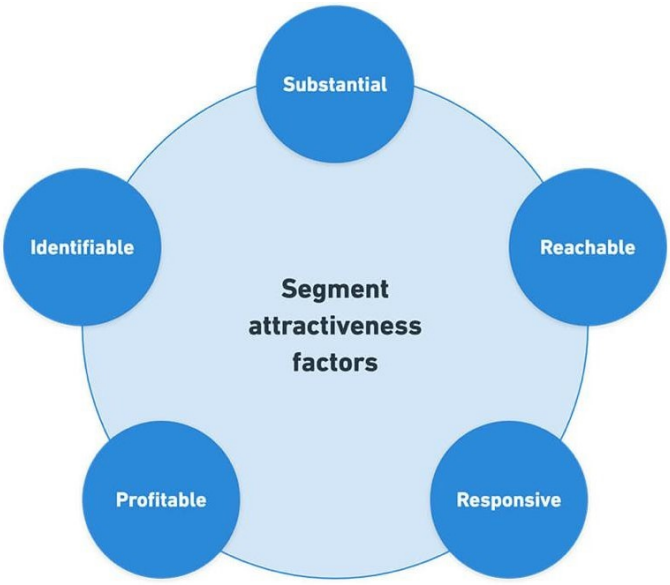


FIG 3.9 SEGMENT ATTRACTIVENESS FACTORS

5. Select target audience/s

Now that you have detailed information on all of your segments, you need to spend some time deciding which ones are the most viable to use as your target audiences. You'll need to take into account your overall business strategy, the attractiveness of the segment, and the competition that exists in that segment.

The best way to determine the most viable segment is by performing cluster analysis. Quite a complex and technical topic on its own (check out this guide to get more insights), clustering in the context of eCommerce segmentation means using mathematical models to identify groups of customers that are more similar to one another than those in other groups. Your ideal audience segment is one that is both

large and still growing, and you are able to reach with your marketing efforts. You'll also want a segment that aligns with your business strategy – it makes no sense to focus your efforts on a segment of men in Australia if you

are phasing out your menswear and don't offer free shipping to Australia.

6. Develop a positioning strategy

Next, you need to develop a positioning strategy that will give you the best edge to compete in the selected target audience. Determine how to effectively position your product, taking into account other competitors – focus on how your positioning can win the largest amount of the market share.

There are several positioning strategy paths you can follow:

- **Category-based positioning –** This calls for determining how are your products or services better than the existing solutions on the market.
- **Consumer-based positioning** – This calls for aligning your product/service offering with the target audience's behavioral parameters.
- **Competitor-based positioning –** This is a pretty straightforward approach that calls to prove you are better than competitor X.
- **Benefit-based positioning** – This calls for proving the benefits that customers will get from purchasing your product or service.
- **Price-based positioning –** This calls for distinguishing based on the value for the money people get when purchasing your product/service.
- **Attribute-based positioning –** Competitors, price, and benefits aside, this calls for zeroing in on a unique selling proposition that makes your product or service stands out from the rest.
- **Prestige-based positioning** – This calls for proving that your products supply a certain boost in status to those who purchase.
- **Product Positioning Map –** The product positioning map is a technique where the business uses visual display to show their products against competitors. This allows for an easy way of navigating and understanding which products are being represented in comparison with others, ultimately helping them make decisions about what should be prioritized or modified based on company needs.

Chose what positioning model makes the most sense based on your previous research, and which would allow you to reach your specific segment.

7. Choose your marketing mix

The last and final step in this long and winding process is to actually implement your strategy. For that, you will need to determine a marketing mix that will support your positioning and help you reach the target audience(s) that you've chosen.

A marketing mix consists of the so-called 4 Ps: Product, Price, Place, and Promotion. The 4Ps are one of the essential marketing models.

Lets breakdown what the 4Ps include:

Product takes into consideration factors like variety, quality, design, branding, features, packaging, services, availability, and convenience.

Price takes into consideration factors like pricing strategy, list price, penetration price, premium, discounting, payment methods, credit terms, and payment period. Are your target audience segments price sensitive?

Place takes into consideration factors like channels, coverage, location, inventory, logistics, and trade channels.

Promotion takes into consideration factors like digital marketing, public relations, social media, sponsorship, influencer marketing, content marketing, product placement, sales promotion and marketing communications. How will you communicate your value proposition to your target audience segments?

A carefully-curated marketing mix will ensure business success. However, if you do leave gaps in it, all the precious work you did at the previous stages might go to waste.

Here's an example to illustrate a poor mix: Let's say you want to sell a luxury skincare product to women in their 40s.



Fig 3.10 4 P'S of Marketing Mix

Your goal is to position it as a high-end addition to their skincare routine that targets concerns related to mature and aging skin. So you invest in print marketing and get your product featured in a couple of popular women's magazines that skew towards the 30+ audience. You also make sure to price the product accordingly so it indicates the luxury category.

However, your packaging is cheap and poorly designed, while the product itself is sold in drugstores.

This inconsistency, which isn't aligned with the overall positioning strategy, will prevent you from reaching your target audience in the first place; those who get reached will experience dissatisfaction resulting in negative word-of-mouth, which will eventually make your sales slumber.

Conclusion

Using the (segmentation targeting and positioning) STP model, businesses can identify their most valuable customer segments and create products and marketing communications that target those customers. This helps you create engaging, personalized marketing campaigns that convert visitors to customers at a high rate.

3.4 need for segmentation of services

The success of a business depends on the quality of its products and how much value it can offer to the public. Achieving this often involves identifying how much value it can provide to a particular

demographic.

Understanding the effects of benefit segmentation can help you categorize business leads and customers more effectively. In this article, we explain what benefits segmentation is, highlight its importance, outline its advantages and disadvantages, discuss the general approach to benefit segmentation, detail ways to use it with other segmentation methods, and provide examples of its application

What is benefits segmentation?

Benefits segmentation is a type of market segmentation that categorizes customers based on the perceived value and advantages they can receive from goods and services. Also, it may include grouping customers based on practical benefits such as features, quality, and customer service. Marketers use this method to ensure lead acquisition and customer satisfaction by identifying who's most likely to benefit from the business. Ideally, a business attracts many customers with different reasons for patronization. By identifying what each consumer group wants from the goods or services, marketers can customize the positioning strategies to cater to specific target groups.

Importance of benefit segmentation

Some of the reasons why benefit segmentation is essential to businesses include:

• **Conversion of leads:** Benefit segmentation helps the sales representatives easily convert leads to full customers. As the aim of marketing campaigns is to attract customers that are likely to connect with a brand, it makes it easier for the sales representatives to increase revenue.

• **Engage customers:** This strategy is an effective tool for engaging customers properly. Identifying the value a business offers to a group of people, it may be easier to create compelling sales pitches and market campaigns that allow the target audience to distinguish a brand's products from others.

• **Product development:** Benefit segmenting allows you to identify underserved markets within a target segment and explore the opportunity to create new products for them.

• **Customer retention**: Attracting customers that are more likely to value a company and its offerings helps reduce the churn rate or the number of people who stop buying a product or service. Also, giving the different demographic groups precisely what they want keeps them satisfied and loyal to the brand.

Advantages of benefit segmentation

Some of the positive effects of benefit segmentation include:

• **Improved goodwill:** Benefit segmentation builds the reputation of a product or brand for providing a particular benefit. This reputation may allow a company to claim market monopoly and relegate its competition to other benefits.

• **Rational purchase:** Unlike other campaigns that try to connect with customers emotionally, benefit segmentation relies on the rational decision of the customer to purchase the product for a specific benefit. It's a simple market strategy based entirely on servicing consumer needs.

• **Multiple products:** With benefit segmentation, a business can offer various products with different benefits to target audiences in the same category.

• **Old customer requests:** A business can use this strategy to appeal to the desires of existing customers without attempting to modify customer behaviour.

• **Create market clusters:** As benefit segmenting allows you to introduce multiple items into the market, it can be a strategy to create market clusters.

Disadvantages of benefit segmentation

Some of the limitations of benefit segmentation include:

• **Limited production:** Due to the limited number of customers in each segment, it isn't advisable to carry out large-scale production for the different customer segments.

• **High production cost:** To cater to the benefits of the different customer segments, companies may incur higher production costs when creating different models, sizes, and types of similar products.

• **High marketing cost:** Creating numerous marketing strategies for the different customer segments requires the company to bear high costs when advertising the products.

• **Stock and storage problems:** Catering to the different market segments implies that companies continuously maintain a sufficient stock of products, leading to working capital, stock, and storage space problems.

The general approach to benefit segmentation

Although benefit segments typically exist for specific products, here are some general approaches that may help you identify customers:

• **Status seekers:** This group of people want products that confer a high social standing by purchasing or owning them.

• **Innovators:** Innovators search for the most advanced and latest version of products in the market.

• **Smart shoppers:** Smart shoppers seek the best combination of features and deals in the market.

• **Pleasure seekers:** They seek the brands that offer the most quality products.

• **Brand loyalty:** This segment prefers popular, trusted, and reliable brands and the product's attributes.

• **Brand connectors**: This group wants brands that replicate their personality and social image.

Using benefit segmentation with other segmentation methods

Getting a more holistic understanding of your customer base requires applying a combination of data segments by merging the results of other segmentation approaches with benefit segmentation. For example, behavioral segmentation focuses on customer actions, such as brand interactions and purchasing habits. Companies can use this data to create a more personalized customer experience. If a company identifies a segment of customers that often makes luxury purchases. Based on this data, they can create a marketing campaign for high-quality items, highlighting the benefit of the products to the customers.

Isolating the segmentation data may limit your knowledge of customers, so using different insights provided by various data segments allows you to study patterns and variables in the data. It may also help you create comprehensive market strategies that correctly translate customers' desires and resonate with them.

Examples of benefit segmentation

To properly understand benefit segmentation, here are some examples of how companies may apply it:

- **Toothpaste companies**

Companies in the dental industry target various customer segments based on the benefits they want from toothpaste. As a result, most kinds of toothpaste brands offer a variety ranging from health-focused options, such as cavity prevention, to aesthetics, such as teeth whitening. The company then studies each segment's characteristics, determines effective strategies, and customizes product lines that target each segment effectively.

- **Athletic footwear company**

Companies that produce athletic footwear use benefit segmenting to divide customers into professional

runners, trail runners, and recreational runners. They provide properly cushioned, lightweight, flexible, and stable shoes for professional runners. Shoes for trail runners are less prone to injury, provide more grip, and are typically more comfortable. Recreational running shoes are usually more stylish, affordable, and comfortable.

- **Outdoor sporting companies**

Companies that produce footwear for outdoor sports may divide their customers based on the requirement of the players and the sport. For instance, those who play ice hockey may require skates, while field hockey players wear cleats. Similarly, soccer players require different shoes depending on whether they're playing indoors or outdoors. As a result, marketing strategies for soccer cleats may highlight specific features, such as traction, control, speed, and agility.

- **Mobile phone companies**

Benefit segmentation is evident among mobile phone manufacturers. For example, some customers prioritize camera quality. Others want phones that serve as status symbols, while people in the older generation want simple phones that perform the essential functions of a telephone. As a result of the divergent demand, companies create different types of phones and position them based on the targets in the market.

- **Skincare brands**

Skincare brands consider the desires of different customers when targeting market segments. Numerous skincare products target specific skin conditions, such as aging signs, under-eye bags, hyperpigmentation, acne, uneven tone, and dry skin. The company targets serums, creams, and anti-aging products to the segment for anti-aging customers while the segment for dark circles and under bags purchases eye cream that fixes these issues.

- **Appliances manufacturers**

Appliance manufacturers may categorize their customers into price-conscious customers who prioritize price over quality. Quality-based customers are the opposite of price-based customers, for example, customers who are willing to pay more for an extended warranty. It also includes commercial or domestic users that want to purchase costly professional appliances.

- **Supermarkets and retail stores**

Retail store customer segments include fast shoppers who opt for easy parking, fast checkout, and mobile shopping. Smart shoppers prioritize discounts, prizes, loyalty bonuses, and coupons. Day-out shoppers prefer long shopping hours, value promotional offers, and consider various products when they decide to

go shopping. Some shoppers prioritize exclusive brands, quality products, product variety, in-store displays, good service, and helpful staff.

- **Automobile companies**

Automobile industries use benefit segmentation to position their automobiles in the market correctly. The benefits that customers seek in cars include family and child safety, status symbol, and adaptability to the environment. Parents typically favor cars with more space and ones that are suitable for children.

Individuals that want cars as recreational vehicles or status symbols may prefer luxurious cars with bold designs that are faster or more distinct from other vehicles on the road. People who drive on dirt roads and rough terrains may prioritize shock resistance, durability, and low gas consumption. Producing these cars and properly positioning them helps these companies effectively target each segment.

3.5 bases for segmentation SERVICES

Segmentation bases are the characteristics marketers use to separate an audience into groups, or segments, that can be targeted with specific marketing efforts.

These bases help the marketer better understand how consumers are similar yet different from one another, which helps inform a segmentation strategy and analysis.

Understanding segmentation bases in marketing is the first step in creating a segmentation strategy that creates beneficial results for your business and customers.

Bases of market segmentation

A segmentation base is a specific way of categorizing or grouping people that has been proven to lead to greater responsiveness to marketing efforts. It's an extremely useful but often overlooked aspect of an effective global marketing strategy. Many companies ignore segmentation and risk losing huge returns on their marketing campaigns.

Understanding segmentation bases helps your company develop campaigns that connect to the customer base and generate results. You become better positioned to create campaigns that outperform your competitors.

To achieve this, you need a solid understanding of the different types of market segmentation and why each is useful for improving your marketing results.

The different types of market segmentation

There are three main types of segmentation bases. Each works well with different businesses and industries, so it's essential to consider your options before deciding on the best for your needs. The three main types of market segmentation are demographic, psychographic, and behavioural.

• **Demographic segmentation** divides people based on their age, income, education level, and occupation. Some examples of companies that use demographic segmentation include insurance providers, healthcare companies, and banks.

• **Psychographic segmentation d**ivides people based on their values, attitudes, and interests. Some examples of companies that use psychographic segmentation include car manufacturers, clothing retailers, and political campaigners.

• **Behavioral segmentation** divides people based on their buying habits and brand loyalty. Some examples of companies that use behavioural segmentation include supermarkets, hotels, and fast-food restaurants.

In addition to these three popular types of market segmentation, there are other bases certain businesses should consider, including geographic and firmographic.

Geographic segmentation divides people based on where they live, while firmographic segmentation divides people based on their work.

Understanding segmentation in marketing

To succeed, marketers must understand their target audience. Small business owners may understand their target customers by speaking to them informally, while a Fortune 500 analyst might need in-depth research and focus groups to learn more about them. Understanding customers improves decision-making across an organization, not only in marketing.

- **Psychographic**

This segmentation strategy focuses on an individual's psychological and emotional needs and motivators. It may sound complicated to uncover, but tools are available to help you learn what customers use your solution for. Techniques like market research, focus groups, and surveys can help you better understand your target audience.

- Demographic

If you focus on demographics, you can divide customers in many ways, including by age, income, occupation, gender, or race. Each category is a segment. Marketers target these groups with their messaging and tactics to appeal specifically to them. Demographic segmentation enhances product value

by allowing a product to mean something more to customers. Demographic segmentation can make a product more personal to the target group.

- **Geographic**

If you're an international company or plan to expand someday, understanding different customer habits and preferences related to specific geographic regions is a crucial part of your role. Customers in Western Europe might respond differently to campaigns than people who live in Asia. No two geographic regions, even two that are side by side, are exactly alike. People living on opposite sides of a national border might have vastly different cultures and habits. This is why it's important to know where your customers are coming from.

- **Firmographic**

Firmographic segmentation is data that describes a business, including where it's located, its legal structure, whether it's privately or publicly owned, how many employees it has, and so on. Firmographic segments are typically stable unless there's a significant change within a company (like a merger, acquisition, or bankruptcy).

- **Behavioural**

One of the most widely used types of segmentation is behavioural. In behavioural segmentation, marketers focus on consumers' behaviors and characteristics — how they spend their time, hobbies, personality types, etc.

Marketers who follow a behavioural-based segmentation strategy use existing data to create profiles of groups that exhibit commonalities within specific markets. Marketers then target these groups with products and services that appeal to their interests and needs.

The benefits of market segmentation

Simply put, segmentation is about dividing an audience into groups based on several factors.

• Allows you to apply different strategies to specific audience groups depending on what they're looking for, the issues they face, or what they love doing.

• Facilitates better engagement with your target demographic, allows you to be more relevant to your audience, and helps you create more value

• Forces you to look at how your product or service fits into your customers' lives, then communicate that by appealing to their needs to influence their behaviour without feeling like you're imposing on them

• Creates brand advocacy and loyalty, e.g., word-of-mouth support – which is always a great boost to marketing

• Allows you to appeal to a broader audience of potential customers by giving your product more versatility and personality

• Helps reduce costs by focusing on reaching fewer people overall but making sure each one of them is engaged with your brand

What are the challenges of using segmentation bases in marketing?

One size does not always fit all, and that also applies when it comes to marketing. Segmentation bases in marketing only work if you find your audience(s) and niche.

• Every segment has unique needs and wants, so even when you find a perfect base, it may trigger adjustments in your messaging, copy, and adverts to ensure you're speaking your customer's language.

• There's no fixed formula for segmentation strategy and analysis, but keeping the customers' needs front- and-centre is always a good start

• Allow opportunities to receive feedback and empower your market to share their perspectives and experiences with you

• No two customer segments are exactly alike, but by paying attention to your customers, you can develop clear segmentation bases that help the marketing team exceed their goals

Undertaking a segmentation analysis

When you have identified and outlined your target market, what do you do with that information? The first step is a segmentation analysis, which uses market research to determine which markets yield the highest return on investment (ROI).

With segmentation analysis, marketers identify how members of an audience can be grouped based on similarities and differences. This clarifies their preferences and challenges.

For example, a company may identify a core customer group as women between 18 and 24 years old who live in metropolitan areas. They may identify another as men between 25 and 35 years old who live near busy cities, and yet another as couples between 35-45 who make at least $50,000 per year.

After identifying these groups, the company evaluates the similarities and differences. Younger women may be more likely to respond to lifestyle-focused marketing strategies, whereas couples may respond

better to product-focused ads. By examining commonalities between your markets, marketers can develop comprehensive marketing strategies that appeal to specific people and cater to individual needs.

How to create a segmentation strategy

Creating market segmentation strategies for your brand is an essential part of modern, data-driven marketing. Your segmentation strategy will vary depending on the industry you're in. It should be considered as you develop your brand voice and tone and choose tactics such as social media posts, advertisements, and email campaigns.

To create a segmentation strategy that works for you, consider the following:

- **Who is my audience (age range/gender/socioeconomic status)?**
- **What do they want (brand value, product benefits)?**
- **How do I reach them (social media platform usage, types of news outlets read)?**
- **How can I tell them about my product (content type/value proposition/call-to-action)?**

These four considerations form the basis of every good segmentation analysis.

Once you've got answers, outline a strategy and implement it across all digital marketing channels, from email campaigns to social media posts.

By identifying segments of people who share common characteristics and crafting distinct strategies to reach them, you'll be able to increase engagement across all platforms.

3.6 segmentation strategies in service marketing

Services Markets Segmentation

Market segmentation is the process of aggregating customers with similar wants, needs, preferences, or buying behaviour. Market targeting involves evaluating the attractiveness of the segments and selecting

ones the firm will serve. In other words, segmentation is the analysis conducted about customers and targeting is the managerial decision about whom to serve. Both of these are required for effective market positioning, which involves establishing he competitive position for the service in the mind of the customer and creating or adapting the service mix to fit the position.

The segmentation process, shown in the following figure is concerned to divide a heterogeneous follows four broad steps:

· The definition of the market to be addressed.

· The identification of alternative bases for segmentation

· An examination of these bases and the choice of the best base or bases for segmentation.

· The identification of individual market segments, an assessment of their attractiveness and the selection of specific target segments.

Once the market segment has been selected, the process of target marketing involves developing a positioning for the target segments selected and then developing a marketing mix for each target market.

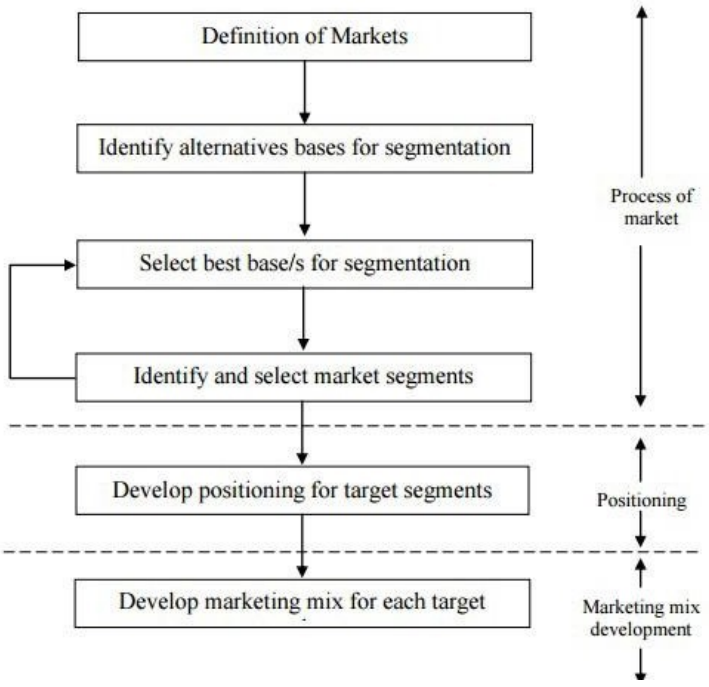


Fig 3.11 Service Market segmentation

Definition of Relevant Market

The definition of the relevant market to be addressed involves specifying the customer group to which the company is seeking to market its services. This can be a broad group such as retail customers for a supermarket in a given geographic region, or a much more specific group which can be further segmented.

Successful market segmentation means satisfying the needs of existing and potential customers in a clearly defined market. This involves understanding customer attitudes, and customer preferences, as well as the benefits which are sought. Definition of the target market and its requirements is the first essential step in the segmentation process.

Bases of Segmentations

Market segments are formed by grouping customers who share common characteristics that are in some way meaningful to the design, delivery, promotion, or pricing of the service.

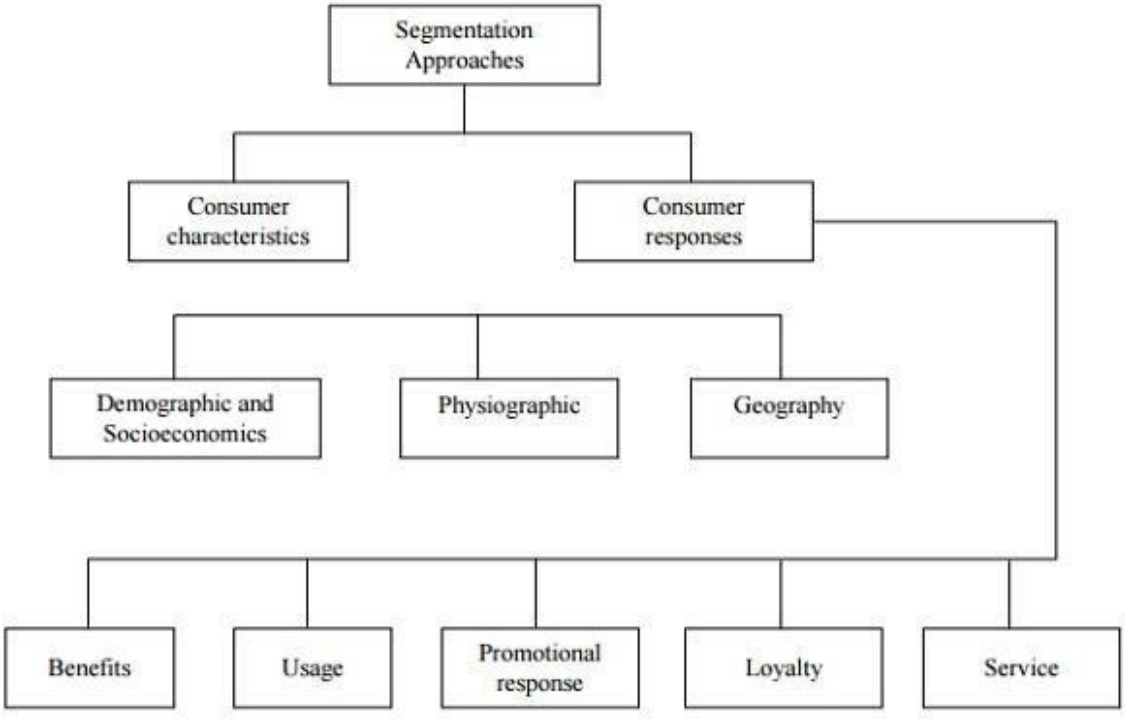


Fig 3.12 Market segments

- **Demographics and socio-economic segmentation**

Demographic segmentation includes several factors including sex, age, family size etc. Socio-economic variables may also be considered here, including income education, social class and ethnic origins. Many

retail stores target different customer groups.

- **Psychographic segmentation**

This form of segmentation cannot be explained in clearly defined quantitative measures it is concerned with people‟s behaviour and ways of living.

- **Geographic segmentation**

Geographic segmentation divides customers according to where they live or work and correlates this with other variables.

A geographic analysis is a relatively simple means of segmenting a market, it is frequently one of the first segmentation variables to be considered by a service firm Geographic segmentation dimensions are typically grouped into market scope factors and geographic market measures.

1. Market scope factors include consideration of where the markets to be served are located: this may be local, national, regional or global.

2. Geographic market measures include examination of population density, climate-related factors, and standardized market areas. Geographic measures are especially important in the selection of specialized mass communications media.

- **Benefit segmentation**

The segmentation variables listed above focus on the personal attributes of the customer. Segmentation can also be carried out based on the customer‟s response.

- **Usage segmentation**

Usage segmentation focuses on the type and extent of usage patterns. Consumers are typically divided into heavy users, medium users, occasional users or non-users of the service being considered.

- **Promotional response segmentation**

Promotional response segmentation considers how customers respond to a particular form of promotional activity. This may include responses to advertising, sales promotions, in-store displays and exhibitions.

- **Segmentation by service**

One area which has received relatively little attention is the consideration of how customers respond to

varying service offerings.

Segmenting markets by service involves addressing the following issues:

•Can groupings of customers be identified with similar service requirements?

•Can we differentiate our service offering?

•Do all our products require the same level of service?

The types of segmentation outlined above are illustrative of the main forms of segmentation used by service companies. they are, however, by no means exhaustive. The segmentation process should result in one of four basic decisions being reached:

1. The service firm may decide to target one segment of the market.
2. The service firm may decide to target several segments and so will develop different marketing mix plans for each segment.

Management may decide not to segment the market but to offer the service to the mass market. This may be appropriate if the market is very small and a single portion would not be profitable. It also may be the case that the service company dominates the market so targeting a few segments would not increase volume or profit.

4. Analysis may show that there is no viable market niche for the service offering.

The relevance of market segmentation is now being increasingly recognized in the services sector.

- **Positioning and Differentiation of Services**

Services firms are not identifying their key market segments and then determining how they wish consumers to perceive both their company and its products and services. Positioning can be defined as follows:

―Positioning is concerned with the identificaifferentiated advantage which makes the organization‟s proud those of its competitors in the mind of its ta

It is therefore important to select distinguishing characteristics which satisfy the following criteria:

• **Importance** –the difference is highly valued to a sufficiently large market

• **Distinctiveness** –the difference is distinctly superior to other offering which are available.

• **Communicability** –it is possible to communicate the difference simply and strongly.

• **Superiority** –the difference is not easily copied by competitors.

• **Affordability** –the target customers will be able and willing to pay for the difference. Any additional cost of the distinguishing characteristic(s) will be perceived as sufficiently valuable to compensate for any additional cost.

• **Profitability**- the company will achieve additional profits as a result of introducing the difference.

3.7 Need for targeting and positioning of services

All About Segmentation, Targeting, and Positioning

What is Segmentation?

Segmentation is the process of dividing the market into smaller groups of people with similar needs and interests.

Companies typically use demographic information like age, gender, income, education, and location to segment their audience.

This allows them to focus their marketing efforts on the people who are most likely to be interested in their product or service.

What is Targeting?

Targeting is the process of selecting which segments to focus on.

Companies typically select one or more segments that they believe have the highest potential to become customers.

This allows them to customise their messaging and marketing strategy to specifically appeal to those segments.

What is Positioning?

Positioning is the process of creating a distinct and memorable image of the product or service in the minds of consumers.

This is done through messaging, pricing, packaging, and branding.

Companies typically want to create an exclusive position in the minds of consumers that sets them apart from their competitors.

What Are the Benefits of the STP Model in Marketing?

The benefits of segmentation, targeting and positioning include

- Increased focus on target customers and their needs and wants.
- Improved customer loyalty and satisfaction.
- Enhanced customer engagement and response.
- More efficient use of marketing resources.
- Increased market share and profitability.
- The ability to develop innovative marketing campaigns.
- The opportunity to create a distinct market position and brand identity.

What Are the Types of Segmentation?

There are four primary types of market segmentation:

1. Demographic,
2. Geographic,
3. Psychographic, and
4. Behavioural.

Let us discuss each of these in detail.

1. Demographic Segmentation

Demographic segmentation divides the market based on age, gender, income, occupation, family size, and education level.

This type of segmentation allows marketers to target specific groups of people with similar traits.

2. Geographic Segmentation

Geographic segmentation divides the market according to where customers are located. This can be broken down by country, region, city, or even neighbourhood.

Geographic segmentation allows marketers to tailor their message to specific areas and target customers in those regions.

3. Psychographic Segmentation

Psychographic segmentation divides the market based on lifestyle, values, attitudes, interests, and opinions.

This type of segmentation allows marketers to target customers with similar values and interests.

4. Behavioural Segmentation

Behavioural segmentation divides the market based on how customers interact with the product or service. This can be based on factors such as usage rates, purchase frequency, brand loyalty, and customer satisfaction.

Behavioural segmentation allows marketers to target customers who have already expressed an interest in their product or service.

3.8 positioning strategies for services

In marketing, a positioning strategy highlights the unique features that distinguish a brand from its competitors. It refers to how a brand wants to be thought of in the mind of customers relative to competing brands. Learning more about positioning strategies can help you reach your target audience.

In this article, we explore the three keys to strategic positioning and review seven positioning strategies.

What is positioning strategy?

Positioning is a marketing strategy, also referred to as product positioning, to promote your product or service to customers relative to competing brands. The goal is to establish a single defining characteristic for your brand in the consumer's mind. Effective positioning strategies consider the brand's strengths and weaknesses, customer needs, and competitors' claims. Product positioning allows a company or brand to illuminate areas where it can eclipse the competition.

3 keys of strategic positioning

Creating an image and shaping how consumers view a brand is a very purposeful and meticulous act. Background research and an understanding of the market are crucial to your brand's success. Product

positioning begins well before creating brand identity and is crucial to branding. The three keys to strategic positioning are often referred to as the three "C's":

1. **Customer**: Central to positioning is knowing your focus by identifying what the buyer wants and needs. Research to see if there is a problem customers need a solution for and what needs they might report via surveys, interviews and reviews. Listening to buyer needs and placing a high importance on those needs is pivotal in getting customer attention and loyalty.

2. **Channel**: Your channel, or sales team, is central to understanding customer needs and is where you will likely find the majority of information for successful positioning. Your channel is a direct connection to the customer, and through their experience, you can get information such as the customer profile, customer problems, competitive intelligence and the purchase process. With experience in the entire sales cycle, channels will help you identify brand strength to effectively focus your positioning strategy on what you do well as a brand.

3. **Competition**: A final step in formulating a product position is paying attention to your competition and its position. If yours is unique and easily differentiated from what is on the market, then your positioning statement (your assertion of brand uniqueness) is effective.

Seven types of positioning strategies

There are several different routes to employ positioning strategies. Although there often needs to be a central one, you can use several together for greater market reach and inform your customers through different modes. The seven basic types of positioning strategies are:

1. Product characteristics or consumer benefits

In using this strategy for positioning, the focus is on quality. It addresses the brand's durability, dependability or reliability and style. An example of positioning based on characteristics is when toothpaste companies refer to the product as "refreshing" or "cavity-fighting." A slogan like "stronger than steel" communicates strength and reliability in a market where similar products exist but are differentiated through consistent product characteristics.

2. Pricing

This positioning strategy focuses on the relationship between price and quality and the consumer's perception of the value of a product. In comparing jacket prices, a buyer might assume that a jacket higher

in price is higher in quality. Conversely, a lower-priced product will position for affordability. Designer jeans boast quality because of cost, while department store jeans are accessible to all.

3. Use or application

When a brand reaches a larger market or changes the purpose of the brand or product, positioning may be based on its use or function. For example, a company that advertises its hot tea during colder seasons begins to promote an iced version during the summer to alter its brand's use to reach a larger market through modifying applications. Tape or adhesives often used for home repairs can reposition the brand for decorative or craft projects. Widening the reach accesses a different type of customer.

4. Product process

This is when a brand is associated with a specific user or class. Endorsements by famous personalities or product influencers are examples. The athleticism exhibited by basketball players who wear specific sneaker brands is expected to be associated with the brand in consumers' minds. In purchasing that brand, the expectation is that all who wear it will be as athletic. Another example is a shampoo, once specifically marketed only for babies, which might change the application to people with sensitive hair or scalps. Repositioning based on the application will help a brand expand by sharing the market.

5. Product class

This consists of positioning two related products in the same product class simultaneously, resulting in an increased customer base. By positioning dried milk as both a breakfast substitute and a protein shake, the appeal is doubled to two different customer needs.

6. Cultural symbols

The objective of positioning based on a cultural symbol is to identify something like a symbol significant to people that haven't been used by competitors and harness it to associate your brand with that symbol. Airlines have done this with cultural symbols to associate with royal treatment.

7. Competitors (relation to)

Using competitors as a frame of reference to differentiate a brand is another type of positioning. Positioning your brand against competitors is an obvious challenge on quality and asserts that your brand is superior with a competitive edge. For example, one chicken-based fast-food restaurant boasts a bovine

mascot who encourages customers to eat chicken, aware that most other fast-food chains market beef burgers. Positioning concerning or against competitors inferentially acknowledges similarities but focuses on the differences, thus spotlighting your brand over the others.

3.9 positioning through product /service delivery services

Starting a new product launch is both exhilarating and challenging, regardless of whether you're a newbie or an experienced pro.

With so many factors to consider, such as marketing, production, and distribution, it's easy to become overwhelmed by the thrill and rush into creating eye-catching brand messaging and digital assets that will appeal to customers. But hold on a second, have you thought about your product's positioning?

Product positioning is the cornerstone of a product's success, and getting it right from the outset is critical. After all, if you still need to establish what sets your product apart, how will customers know why they should choose it over the competition?

In this article, we'll discuss positioning your product in the market to ensure long-term success.

What Is Product Positioning?

Product positioning is a marketing tactic business use to highlight their product's strengths and unique selling points to create a lasting impression in the minds of their target customers.

The idea is to make customers think positively about the product and set it apart from its competitors. It's like giving your product a personality that customers can relate to and feel good about.

Imagine it as a chess game – analyzing your opponent's moves, deciding on your strategy, and executing it flawlessly. With product positioning, companies aim to capture the attention and loyalty of consumers. They create a distinct product identity that sets them apart from the competition.

For example, let's say you're considering buying an electric vehicle. You'd want to know why it's better than traditional petrol or diesel vehicles, right?

That's where the company's product positioning strategy comes in – they might emphasize how their electric car is more environmentally friendly.

And here's the cool part – product positioning isn't just about advertising or promotion.

It includes everything from the product's features, price, promotion, and distribution. All these elements

work together to create a compelling product image in customers' minds.

Benefits of Effective Product Positioning

Here are some of the key benefits of product positioning that highlight its importance and utility in marketing:

• **Fosters a Market-Oriented Organization**: Product positioning is part of a broader marketing philosophy that focuses on matching a product's superior aspects with consumer needs better than the competition. By adopting this philosophy, businesses become more market-oriented, ensuring all aspects of the organization align with their target consumers' needs and expectations.

• **Adapting to Market Changes:** Markets continually change, and businesses must adapt to stay competitive. By monitoring market developments, managers can identify new competitive advantages and develop strategies to meet changing consumer expectations.

• **Meets Buyer Expectations:** Product positioning helps businesses identify and communicate a product's advantages that align with their target buyers' expectations. It, in turn, allows companies to meet consumer expectations and build stronger relationships with their customers.

• **Promotes Consumer Goodwill and Loyalty**: Systematic product positioning reinforces a brand's identity and creates customer goodwill and loyalty. Businesses can build trust and foster long-term customer relationships by establishing a distinct product identity.

• **Effective Promotiona**l Strategy: Product positioning helps businesses design more meaningful and effective promotional programs. Companies can create more impactful advertising and promotional campaigns by identifying their product's key advantages and communicating them clearly and compellingly.

• **Captures Consumer Attention and Interest**: Promoting a product's significant advantages through suitable advertising means will catch the attention of consumers. It helps businesses stand out in a crowded marketplace and generate interest and buzz around their product.

• **Attracts Different Types of Consumers:** Businesses can attract a broader range of buyers with diverse product expectations by promoting different competitive advantages.

• **Competes with Rivals:** By identifying and promoting their unique advantages, businesses can improve their competitive strength and stand out in a crowded marketplace.

• **Introduces New Products Successfully**: Product positioning can assist businesses in introducing new

products to the market. By positioning their product's unique and superior advantages, companies can penetrate the market more efficiently and establish a strong foothold.

• **Communicates New and Varied Features:** Product positioning can help businesses highlight the qualities and features of their existing products and position themselves against their competitors. By doing so, companies can demonstrate their superiority and help consumers make informed purchasing decisions.

Product Positioning Strategies

Here are some of the types of product positioning strategies that businesses can use to achieve their marketing goals:

- **Price Positioning**: One of the most common types of product positioning is pricing. It involves offering your product at a lower price point than the competition, positioning it as the most affordable option in the market.
- **Quality Positioning:** Another popular product positioning strategy is quality. If you want to stand out from your competitors, you need to provide a product that is superior in terms of quality. Customers will be willing to pay a premium for a high-quality product.
- **User Positioning:** User positioning is one more product positioning strategy that involves targeting specific groups of customers who are most likely to buy your product. It is a crucial aspect of marketing that helps businesses attract the right customers. By identifying your target audience's specific needs and preferences, you can tailor your product to meet their expectations.
- **Product Type Positioning**: Another way to differentiate your product is by positioning it in a unique category. It can help shift customer perceptions and attract new market segments. For example, a juice brand can be a healthy substitute for soda and other sweet beverages.
- **Competitor Positioning:** In this type of product positioning strategy, you highlight the superiority of your product over your competitors. Demonstrating your product's advantages can convince customers to choose your product over the competition.
- **Differentiation Positioning**: Differentiation positioning aims to make your product stand out in a crowded marketplace. You can achieve this by emphasizing your product's unique features and benefits and how they differ from the competition.

Steps in Product Positioning

Here are ten steps to help you position your product effectively:

- **Understand Your Target Audience**

To create a product positioning strategy that resonates with your customers, you must first identify your target audience.

Understanding their needs wants, and pain points will help you create a product that meets their expectations.

- **Highlight the Key Benefits of Your Product**

Your customers need to know why they should choose your product over others. Highlight your product's key benefits and features and how they can help solve your customer's problems or meet their needs.

- **Establish Brand Credibility**

The third step in product positioning strategy is Building trust with your customers. To establish brand credibility, you must deliver on your promises. You also must be transparent about your product's features and benefits and provide excellent customer service.

- **Develop a Unique Value Proposition**

You need to offer a unique value proposition to stand out in a crowded market. It involves communicating what sets your product apart and how it's better than the competition.

- **Segment Your Audience**

Not all customers have exact needs, so segmenting your audience can help you create customized messages that resonate with each group. It will allow you to tailor your product messaging to specific customer segments and increase your chances of success.

- **Craft Your Product Messaging**

Once you know your audience, it's time to craft your messaging. Determine which channels will work best to reach your customers and create messages that effectively communicate the value of your product.

- **Analyze Your Competition**

Understanding your competition is critical to creating a solid product positioning strategy. Analyze your competitors to see what they offer, how they market their products, and how you can differentiate yourself.

- **Demonstrate Your Expertise**

Your customers need to know that you're an expert in your field. Showcase your knowledge and expertise by creating content, providing resources, and demonstrating how your product is better than others.

- **Focus on Your Competitive Advantage**

What sets your product apart? Identify your competitive advantage and focus on communicating it. Highlight what you can do better than your competition and why customers should choose your product.

- **Maintain Your Position**

Once you've completed product positioning, it's essential to maintain that position. Consistency is vital. Hence, continue to provide high-quality products and services, keep up with the newest trends and advancements, and ensure your messaging remains consistent.

Examples of Successful Product Positioning

Many successful brands have put product positioning into practice and achieved remarkable results. Here are some examples:

1. **Nike's Jordan brand:** The Jordan brand is an emotion-based positioning strategy that capitalizes on the fame of basketball legend Michael Jordan to create an aspirational brand associated with success and greatness.

2. **BMW's M Series:** The M Series is positioned as a high-performance line of cars intended for racing and track use, appealing to customers looking for a thrilling driving experience.

3. **Red Bull's Energy Drinks:** Red Bull has positioned its energy drinks as a source of extra energy, which makes them an attractive option for individuals looking to boost their energy levels. This positioning has helped Red Bull become a popular choice among people who need a quick energy boost.

4. **Starbucks**: Starbucks has positioned itself primarily on giving the best consumer experience, from writing the customer's name on the glass to allowing them to order via a mobile app.

5. **Amazon**: Amazon's brand positioning is driven by its relationship with customers, offering agility in delivery, low prices, and the freedom to like or dislike products.

3.10 positioning through pricing strategies

Price Positioning is essential for setting up your brand image and marketing strategy and differentiating your brand from the competitors. It allows you to set up your brand and its products or services as a lower, mid-range or premium segment in the market.

There are various types of customers in the market; thus, you have to prepare your pricing strategies

according to your target market customers. In this guide, we have mentioned all pricing strategies that can help you set your required position in the market.

What Is Price Positioning?

Price Positioning is defined as setting up the price of your products or services concerning the competitors present in the market. It allows you to set up market-accepted pricing, which provides an important place for your products and services.

Under the price-quality positioning, your products are to be set up under the premium, mid-range, or economy pricing segment products in the minds of your customers. The price positioning is held to set up the perceived value of your products or services that matches the consistent actual value.

The price positioning strategy includes various factors, including the target market, competition, and features of your product or service. Therefore, a luxury brand sets its prices generally high to position its brand with premium products, while some brands choose to keep their prices low to target the price-sensitive market.

Price positioning is one of the best marketing strategies to target a specific customer base, differentiate your brand from competitors, and generate more profit. However, your brand needs to set up your brand objective before implementing the price positioning.

6 Effective Price Positioning Strategy

Generally, 5 effective price positioning strategies can help your brand position its relevant image in the market. Let's have a look at the strategies.



Fig 3.12 Price positioning strategy

1. **Premium Pricing**

Premium pricing refers to determining the higher prices of your products and services than your competitors to showcase the premiums and exclusivity of your brand. This pricing and positioning strategy is typically beneficial for products and services with unique features and benefits.

For instance, various luxury car or jewellery brands utilise the premium pricing method to position them as high-end brands. To set up your brand in the premium market segment, your products and services must have several unique and valuable features. It would surely bring you a total new market share.

2. Penetration Pricing

Penetration pricing strategy refers to setting up lower prices for your products or services compared to your competitors to attract price-sensitive customers and gain some market share. This strategy generally penetrates the crowded market with new products and services.

The main motive of this price positioning strategy is to gain a consumer base by offering lower prices and slightly increasing the prices with time to maintain the company's profit. To successfully implement this strategy, you have to shape your brand to sustain profitability even at the lowest price point.

3. Value-Based Pricing

Value-based pricing refers to setting up the prices of your products based on the value they add to the customer's life. Thus, the main motive of value-based pricing is to charge the worth prices that reflect your product's features and benefits.

To properly implement this strategy, you should deeply understand your customers and their needs and wants. You have to fulfil those needs properly and the customers' wants and then charge accordingly. To effectively utilise this strategy, you need to make the customer perceive the good value of the products and services.

4. Dynamic Pricing

Dynamic pricing refers to setting up and changing the pricing of your products or services based upon the time it is to attain maximum benefits utilising customers' sense of urgency and need.

For example, you would have seen various airlines changing the price of air tickets based on how many days are left for the flight's take-off. To properly utilise this strategy, you must use a lot of data and algorithms. Dynamic pricing is generally helpful for seasonal businesses to gain the maximum possible benefits based on demand.

5. Competition-Based Pricing

Competition-based pricing refers to analyzing your competitors' prices to set your prices accordingly to compete in the market with reliable prices. Sometimes, competition-based pricing generates higher profit for you, while sometimes, it only goes through survival time.

Pricing can not be the only factor in your business; instead, you have to focus on the value you're giving. You will only have better products and services that your customers will like. Amazon's products are the best example of competitor-based pricing. It will help you better compete in the market.

6. Price Skimming

Price skimming refers to selling a trendy and on-demand product at its acme while your competitor doesn't have the product to sell. It allows you to set a monopoly in the market and, thus, sell it at slightly higher margins. However, it would be best if you did not sell at outrageous prices. At the initial stage, it allows you to earn a lot of profit and quickly hit the break-even of the segment. Gradually, when the product becomes normal in the market, and everyone starts selling it, you can start selling at lower or mid-range prices.

Price Positioning Examples

Example #1: Apple

Apple is one of the most prominent brands known for widely using price positioning. They have positioned themselves as a premium brand in the market, which reflects the high perceived value of the products. They have built their reputation as a premium brand over some time.

Example #2: Patagonia

Patagonia is an outdoor company known for its clothing and gear. They also widely used price positioning, and they have also positioned themselves as an eco-friendly brand. According to a Nielsen report, 58% of consumers can pay more for environmentally friendly brands.

Thus, the company showcases its high perceived value as a sustainable and ethical business and charges higher than other brands. It helps them target all environmentally friendly customers.

Example #3: BMW

BMW is one of the most used price positioning brands in the market due to setting up its brand as a premium or luxury car brand. The customer perceived its value as a premium product and gave its brand a high-quality feel.

Example #4: Gucci

Gucci is also one of the great price positioning examples in the fashion market. From the start, the company has showcased its value as a premium and exclusive brand. It has given them a top-notch position in the market.

Example #5: Chanel

Chanel is also a great pricing and positioning strategy example as a premium fashion brand. Like the other premium brands, it has also showcased its value as an exclusive brand.

To Wrap Up

This guide consists of all the essential factors regarding the price positioning that can help your brand make the right pricing and gain market share. We hope you like the guide and that it has helped you know the relevant information regarding the price positioning.

3.11 positioning through Distribution strategies

Companies that make products use a distribution strategy to get them to the consumer market, and there are several types and forms to choose from. Knowing more about distribution strategies and the benefits of each can help you create the strategy that's right for your business.

In this article, we explore distribution strategies with an in-depth look at types of strategies and distribution channels to help you better understand this aspect of business.

What is a distribution strategy?

Distribution strategy is the method used to bring products, goods and services to customers or end-users. You often gain repeat customers by ensuring an easy and effective way to get your goods and services to people, depending on the item and its distribution needs. Organizations consider which distribution strategy is best while being cost-effective and increasing overall profitability. You can even use multiple or overlapping distribution strategies to reach target audiences and meet company goals and objectives. For example, a product might sell better online to one demographic and via a mail-to-order catalogue to another target audience group.

Consider basing distribution on your ideal customer, thinking about where and how they buy products and what you can do to make purchasing your goods or services easier. The item itself is often key to determining the right distribution strategy, type and channel. For example, if your product is a high-end designer line of furniture, buying directly from the manufacturer may be worth the customer's time. Or if

your product is a routine, everyday item like a bottle of water, buying through convenient and nearby shops may be more appealing to the customer.

When planning your distribution strategy, there are several factors to consider, including:

Product Type

Depending on the type of product or service you offer, your distribution strategy may vary. For example, the distribution strategy for a luxury car brand may differ from that of a paper towel manufacturer. Most consumer purchases get categorized into these three groups:

• **Routine**: A routine purchase is typically a low-cost item or service a customer chooses quickly, like gum, soda and paper products

• **Limited**: A limited purchase is a moderately priced item a customer spends more time selecting than a routine purchase, like a refrigerator, couch or computer

• **Extensive**: An extensive purchase is often an expensive item a customer intensively thinks about before buying, like a vehicle, house or college education

Customer base

Another factor to consider is your user, or customer, base. Depending on where your customers typically shop, your distribution strategy varies and often advances in technology influence distribution, too. For example, if your target customer base for your paper towel product is a middle-aged woman buying at a grocery store, you may choose to distribute to various brick-and-mortar storefronts, like grocery store chains and warehouse companies. If your ideal customer base for your customizable furniture is a high-tech affluent customer, distributing directly from the manufacturing warehouse via online sales may work best. Types of shopping methods preferred by consumers can include:

• E-commerce websites

• Direct mail ordering

• Storefronts, booths and shops

• Door-to-door sales

Warehouse and transportation logistics

The capabilities and costs associated with running a warehouse and delivery logistics are another

consideration when building a distribution strategy. For example, it is a large financial investment to have a warehouse for storing goods, a fleet of vehicles like trucks and vans and personnel to staff the warehouse and deliver the items. Depending on the storage and delivery needs of your product or service, picking an alternative distribution strategy may lead to higher cost savings and increased revenue.

What are the types of distribution strategies?

There are primarily two types of distribution strategies, known as direct and indirect, and depending on the product or service, the two strategies offer different benefits and cost savings to a company. Here's a definition of direct and indirect distribution strategy:

• **Direct distribution strategy:** Direct distribution is when manufacturers sell and send their products directly to consumers without the use of other parties and entities. It often requires having a warehouse to store products and a delivery process to get them to customers.

• **Indirect distribution strategy:** Indirect distribution strategy is when manufacturers use intermediary businesses and entities to help logistically get products to customers. It's often most helpful for large amounts of routine products and can create cost savings for a company.

Within these two main types of distribution, strategy are more specific options, including:

• **Exclusive**: Exclusive distribution is when a manufacturer picks a few sales outlets to create a level of exclusivity for an item or brand, like luxury goods or exotic vehicles.

• **Intensive**: Intensive distribution is when a manufacturer wants to penetrate the market by selling its goods to as many sales outlets as possible to reach customers, most often for affordable routine items like candy bars, household products and drink items.

• **Selective**: Selective distribution is a mix of exclusive and intensive distribution, giving you more locations to sell a product while still being choosy in which stores or partnerships to sell within, like a high-end rug manufacturer selecting a specific retail department store to reach more customers.

• **Dual**: Dual distribution combines direct and selective distribution strategies to grow market influence and also maintain direct sales with customers.

• **Reverse**: Reverse distribution is often less common, where an item flows from the customer back to a company, typically for recycling or refurbishing of goods, like used computers or other electronics.

What are distribution channels?

A distribution channel refers to the path that services or products follow until they reach their end-users and customers. The proper distribution channel depends on the product, who it's serving and where it's going. For instance, a product may go from the factory to a warehouse to the consumer. Or it may go from the factory to a wholesaler to a retail storefront to the consumer. This series of events would be the product's distribution channel.

Here are four primary distribution channels with explanations of how they work:

Wholesale

A wholesale distribution channel is when a wholesaler purchases items in bulk from a manufacturer and then sells them to retailers later. This is often a good way to secure products for less money because you place a large order. Wholesalers focus on the storage and delivery of goods and act as a trader between the manufacturer and the retailer who sells them, rarely interacting directly with the customer.

Retail

A retail distributor is often the place an item ends up before being purchased by a customer. Retailers can get their products by buying from wholesalers or the manufacturer directly, and they mark up the cost of an item to earn a profit. Retailers are often thought of as actual storefront locations, like a supermarket or department stores, though with technological advancements, retailers are also online websites, catalogue companies or even phone-order businesses.

Franchisor

A franchise distribution channel is a unique way of distributing products and services. A business owner pays to use company branding to gain sales through flat fees and specific royalty amounts agreed upon in a contract. Organizations and manufacturers with brand recognition and established customer bases can benefit from this distribution channel without the everyday responsibilities of managing each location. Some common examples of franchise distribution channels are well-known fast-food restaurants, real estate offices and some healthcare companies. Franchising often centres on these three types:

• Product distribution franchising

• Business format franchising

• Social franchising

Distributor

A distributor gets and transports items from manufacturers to retailers and other locations, and it's beneficial to use this method to save on the cost of having a shipping site, staff and logistics operation. A distributor can also benefit by having multiple clients that overlap, creating comprehensive product groupings that generate more sales. For example, a distributor that has separate furniture, rug and lighting manufacturers can create an all-in-one living room package deal for the customer to buy that includes a sofa, chair, coffee and end tables and two lamps.

What are examples of distribution strategies?

Here are three examples of various distribution strategies using business examples from various industries:

A toothpaste company

With this example, a toothpaste company wants to have its product sold at as many locations as possible to reach consumers so it selects intensive distribution through both direct and indirect outlets. It sells online via a website and ships directly to customers but also uses indirect methods like wholesalers and distributors to sell more. With an intensive distribution strategy, the toothpaste gets sold at places like:

• Supermarkets

• Convenience stores

• Warehouses

• Big-box retailers

• E-commerce websites

Intensive distribution strategies for everyday items like toothpaste are useful for consumers who are loyal to a brand, buying it each time regardless of where they make the purchase, but also for those who buy based on sales promotions, to try a new brand or variety or to substitute for a brand they usually buy that's not in stock or costs significantly more.

A luxury watch brand

A high-end luxury watch brand company has two flagship stores, one on each U.S. coastline. This exclusive distribution strategy leverages the prestige and rarity of its brand by having a limited number of locations to buy a watch. By maintaining this exclusive distribution strategy, the company also has more control over manufacturing, price, contract negotiations and more because it involves fewer entities in the

process.

The watch company may choose to overlap its exclusive distribution strategy with a selective distribution one to garner more customers in a controlled way. For example, the company may partner with a luxury department store that has more locations than its flagship stores, but not as many locations as more affordable department stores to maintain its luxury appeal and brand. It might be something they consider doing year-round, for a select amount of time or on special occasions, like the holiday sales season.

A neighborhood lawn care business

With this example, a small business owner may distribute its lawn care services through direct marketing and distribution to the customer, choosing to advertise and provide all the lawn care services themselves through an online presence, door-to-door flyer sales and a small staff.

As the company grows, it might consider franchising to other neighborhood businesspeople who want to sell lawn care services using the name of this now-established business. The lawn care business owner can charge a flat fee to use their name and collect a percentage of profits from each franchised area.

3.12 positioning through sales promotion and advertising

Advertising and Sales Promotion

Advertising is as old as trade and commerce. The ancient Babylonians and the Romans contributed significantly to the early growth of advertising. The nineteenth century saw the introduction of magazines which also grew into a big advertising medium. The modern-day advertisement agency has its origins during this period.

Starting as agents for newspapers, the agency diversified into other services such as copywriting, and played the role of consultants to advertisers. This marked the beginning of the modem day, full service and agency. The early twentieth century was the golden age of advertising. The great depression of the 1930s saw a temporary setback in advertising growth.

However, there were some positive developments during this period such as the introduction of radio as an advertising medium and the application of research in advertising. The positive developments during the 1950s were the emergence of television, the application of psychology and research in advertising, and the invention of the concept of Unique Selling Proposition (USP) by Reeves. The decade 1960-1970, ushered in a creative revolution in advertising. Outstanding personalities like David Ogilvy, Leo Burnett and Bernbach etc. emphasized the creative side of advertising and developed campaigns that stood out for

their creative brilliance.

The decade 1910-1980 is referred to as the positioning era, as it saw the emergence of the concept of positioning developed by Ries and Trout. This concept has wide application in advertising today. The present era is aptly named the era of accountability. There is greater for truthful advertising for measuring the effectiveness of advertising in general, and for socially responsible advertising.

In India, advertising, as a potent means of sales promotion, was accepted hardly three decades ago. This delay is attributable to its late ―industrialization‖. But today, India too has emerged as an industrial country, giving a boost to ―advertisements‖ that appear regularly, in local and national newspapers magazines, periodicals, TV etc. These days people use ―Advertising‖ in various walks of life.

Manufacturers use large-scale advertising for impressing people with the utility of their products. Businessmen advertise inviting individuals to invest money in their concerns. Employers advertise applications for various vacancies in their companies for selecting the best applicants. The unemployed persons advertise their readiness to serve. In this manner, ―advertising‖ has become indispensable in modem life.

The present era is of mass production and mass distribution. Similar products are taken to the market. This involves stiff competition among the producers. Many firms adopt vigorous means to maintain their existence in the market, as there are many substitutes in the market. This tendency is a struggle for the producers for their survival in the modern business world. All businessmen aim to make a profit by increasing sales at a remunerative price policy. When we manufacture good quality products or offer expert services, these must be known to the public.

For this mass communication is needed as the population is great or the market area is wide. We can adopt sales promotion and advertising as tools to mobilize the marketing machinery. In the present business world, suitable publicity is done through advertising, which is adopted by commercial and industrial undertakings and almost all types of concerns. Therefore advertisement is a method of publicity:

Evolution:

Advertisement has a prominent place among the techniques of mass education and persuasion of the public. It is not a modem origin. It has been used since the immemorial period.

In earlier periods, advertisement was displayed in the form of signboards, writing on historical buildings or inscriptions on stones, stone pillars, stone walls etc.

The development of printing has greatly boosted the ideas of advertising through newspapers, magazines, handbooks etc. In earlier periods, it was used only in a limited manner. The evolution of printing technology and the changes in marketing policies have been greatly utilized and many are benefited from advertising.

Now, manufacturers, businessmen, employers, institutions, new shop owners, marketers etc. are benefited greatly by displaying advertisements. Increasing literacy, modem techniques of printing, stiff competition etc., add to the necessity of advertisement.

Definition:

Littlefield defines it as "Advertising is mass communication of information intended to persuade buyers to maximize profits."

Hall defines it as "Salesmanship in writing, print or pictures or spreading information utilizing the written and printed word and the pictures."

Stanton says, "Advertising consists of all the activities in presenting to a group a non-personal, oral or visual, openly sponsored message regarding a product, service or idea."

American Marketing Association defines advertising as any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor‖.

From the above definitions, it is stated that advertising indicates that:

(a) Advertisement is a message to large groups.

(b) It is in the form of non-personal communication.

(c) It persuades the general public to purchase the goods or services, advertised.

(d) It is paid for by the advertiser to publisher.

(e) Advertising messages are identified with the advertiser.

Basic Features:

After scrutiny of the above definitions, the essential elements of advertising can be listed as follows:

1. Matter of Record :

It is a matter of record furnishing information for the benefit of buyers. It guides or helps buyers to make satisfactory purchases. The contents of an advertisement are what the advertiser wants.

2. Non-personal Communication:

It is a mass non-personal communication, reaching large groups of buyers. It is not delivered by an actual person. It is not addressed to a person. Whatever the form of advertisement-spoken, written or visual, it is directed at a mass audience and not at the individual as in personal selling.

3. Persuasion of Buyers:

Advertising complements or may substitute for personal selling. To persuade the buyers the advertiser makes his products buyer-satisfying. It is the art of influencing human action to possess one's product.

4. Paid Form of Publicity:

Advertising is a paid form and hence commercial. Thus any sponsored communication designed to influence buyer's behaviour is advertising because the advertiser pays for it.

5. Identifiable with the Sponsor:

Advertising is identifiable with its sponsoring authority or advertiser. It discloses or identifies the source of opinions and ideas, it presents.

What is advertising?

Advertising is an activity by which visual or oral messages are addressed to the general public. Its purpose is to inform or influence them to increase the sales of the advertiser. It is done to sell the goods or services, offered by the advertiser. It may also draw the readers or viewers to act favorably towards the idea or institutions featured. It is paid for by a seller (sponsor).

The seller or the advertiser has to pay for the space (or time) through which the message (advertisement) appears. The aim is to persuade people to buy more. Advertising creates the desire for new products. The success of advertising greatly depends upon an effective advertising programme. Effective advertising naturally necessitates mass production, thereby reducing unit cost by lowering the price of goods in favor of consumers.

Advertising and Advertisement

The _message' is known as an advertisement. Advertisement is nothing more than a message. Advertising is a process. It is a programme or series of activities necessary to prepare the message and bring it to the

intended persons or market. The reader knows who is behind the advertising as the sponsor is openly identified in the advertisement itself Payment is made by the sponsor to the media, who carry the message.

Advertising and Publicity:

Advertising is defined as any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. ―Publicity‖ has been defined by American Marketing Association as ―non-personal stimulation of demand for a product, service or business unit by planting commercially significant news about it in a published medium or obtaining favorable presentation of it on radio, television or stage that is not paid for by the sponsor.‖

To be brief, both, advertising and publicity make a non-personal presentation to the masses. Tell the aspects of the product like quality, price, usefulness, special features etc. The advertiser has to pay for the advertisement. In the case of publicity, it is not a necessity. For instance in the election, the expenses of popularizing a candidate may or may not be paid by the candidate.

Advertising is a purposeful attempt sponsored by the party, whereas publicity may or may not be sponsored by the party. It means, in publicity, the person passing the message may not come to the stage: someone or a third person initiates the publicity; for instance, good or bad remarks appearing in newspapers about anything-a film, a book, a policy, an adventure etc. Advertising is a method of publicity. In other words, publicity involves several methods including advertising.

Personal selling and other forms of promotions are supported by advertisements. It is the main objective. The long-term objectives of advertising are broad and concerned with the achievement of overall company objectives.

1. To do the entire selling job (as in mail order marketing).

2. To introduce a new product (by building brand awareness among potential buyers).

3. To force middlemen to handle the product (pull strategy).

4. To build brand preference (by making it more difficult for middlemen to sell substitutes).

5. To remind users to buy the product (retentive strategy).

6. To popularize some changes in marketing strategy (change in price, improvement in the product etc.).

7. To provide rationalization (i.e., socially acceptable excuses).

8. To combat or neutralize competitors' advertising.

9. To improve the morale of dealers and/or salespeople (by showing that the company is doing its share of promotion).

10. To acquaint buyers and prospects with the new uses of the product (to extend the product's life cycle).

Importance of Advertising:

The standard of living of the public is raised by introducing modern products and the latest techniques through advertising. Mass production followed by large-scale consumption facilitates earning more profits. Large-scale production decreases the unit cost. The selling price is also reduced, but not to the extent of the decreased cost of production.

It means, the price of the product is decreased, thereby consumers are satisfied and the dividend rate is increased, thereby shareholders are satisfied. All these happen because of advertising. Items like pens, radios, scooters, watches, refrigerators, television sets, cameras, foot-wares and many other modem amenities are examples. Advertising reaches the masses, whereas salesmen find it difficult. Advertising covers a vast area. In the field of competition, advertising is a good helper to the producer to boost his products.

PLC and ADVERTISING:

Based on the concept of the product life cycle, one may differentiate the stages:

(a) Introductory Stage:

In this stage, the marketer develops a new product and there is no assurance that consumers will perceive a need for it. Unless consumers perceive a need for the product, it will not sell. The job of advertising is to introduce the idea that the product is better able to meet consumer needs than the existing ones.

It must effectively communicate that the new product has overcome the limitations of earlier alternatives that consumers tolerated for a long. The role of advertising messages in this stage is to furnish product knowledge, change existing habits, develop new usage, cultivate new standards of living, and implant a new way to look at existing approaches to problem solutions.

(b) Competitive Stage:

The consumers have accepted the product and the competition has moved into the marketplace sooner

rather than later. The consumer faces the question, ―Which brand should I buy?‖ Generally, in the early stages of competition, the combined total effect of competitors creates significant growth for the product category. The key objective of advertising is to clearly and convincingly differentiate the company's brand and effectively communicate its position.

(c) Reminder Stage:

When products reach maturity in their life cycle and are widely accepted, they are in their reminder stage. Marketers may not feel much need for competitive advertising, as consumers already know all about the product. Some consumers like it and others don't like it or may be neutral.

However, if marketers do not advertise, consumers are likely to forget about it and switch to other alternatives being advertised regularly. This is sufficient reason to switch to reminder advertising and keep the brand in front of consumers for top-of-mind recall. Advertising alone rarely ―sells‖ products, services or ideas. But it ―helps‖ to sell through persuasion.

Groups involved in Advertising:

It is normal to speak broadly of three sides of advertising-advertiser, advertising agencies and media owners. Advertisers may be manufacturers or importers. An advertising agency is an independent concern, acting as a specialist in advertising. Media selection is an important step since it costs time, space and money. Media are important and are commercial vehicles that carry an advertiser's message to his prospects. (Dealt with separately).

Types of Advertising:

The following are the important types of advertising:

1. Brand Advertising:

This type of advertisement is done to build brands and develop a unique brand identity for the firm. This is the most popular form of advertising in all possible media including TV: for example, Pepsi, Coke etc.

2. National Advertising:

These advertisements are uniform across the nation and are released through national media covering the nation.

3. Local Advertising:

These advertisements are carried out in local and vernacular media to promote the product in a local

region.

4. Retail Advertising:

These advertisements are brought to promote retail outlets and dealer points.

5. Political Advertising:

These are done for political parties, politicians and individual candidates during elections.

6. Social Advertising:

These advertisements are brought out for a social cause like against AIDS, child labour, and women trafficking.

7. Directory Advertising:

These are the advertisements done in directories and yellow pages and followed by people while collecting a telephone number or a home address.

8. Business-to-Business Advertising:

These kinds of advertisements are carried out targeting business and organizational marketers. These messages are directed towards retailers, wholesalers and distributors.

9. Institutional Advertising:

Institutions like colleges, universities, missionaries of charities and large corporates bring out these advertisements. The purpose of such advertising is to create positive goodwill, which will ultimately contribute towards achieving to overall marketing and brand-building goal of the organization.

10. In Film Advertising:

These are new forms of advertising in which brands are placed inside the film and actors are shown using these products during the movie for increasing the usage among the audience.

11. Electronic Advertising:

These forms of advertising use electronic media like TV, radio, video, audio cassettes, etc.

12. Interactive Advertising:

These are typical internet-based advertisements, which are delivered to individual consumers who have access to the World Wide Web.

The Headlines:

The first function of a headline is to attract the reader's attention to the advertisement. It is used to arrest attention and gain the buyer's interest. A headline is defined as a word or phrase that is prominent and catchy when compared to the other elements of the advertisement copy. It may be prosaic, poetic etc., depending on the type of product and atmosphere that has to be created.

The following are the important models of headlines:

1. News headline:

This type of headline gives some type of news-price reduction, product improvements, premium offers, a modification of an already existing product, the addition of a new ingredient in an old product, etc.

E.g.: "Nescafe, the coffee that tastes so good."

―Glaxo builds bonny babies.‖

2. Declarative headline:

This type of headline makes a bold positive statement, which is obvious in itself. The message is clear and direct.

E.g.: "Buy Parker for success."

―Bring home the leader, VIDEOCON.‖

3. Affirmative headline:

Though the message is not assertive, it makes a statement.

E.g.: "Growing children need COMPLAIN".

4. Command headline:

The commanding headline urges the reader to some action. It creates an atmosphere of urgency in the text.

E.g.: "Use VIM. VIM can change DIM into SUPER WHITE.

5. Interrogative headline:

This headline asks a question to the reader. Sometimes, the answer is contained in the headline itself.

E.g.: "Do you want clear eyesight?"

Then, use ―AMLA HAIR OIL‖.

6. Identification headline:

This type of headline is very useful for product identification either in terms of brand name or the manufacturer.

7. Emotional headline:

These headlines exploit human emotions. It is a deliberate and planned attempt at creating the right mood as the body copy also pours out emotions.

8. Bargain headline:

The bargain headlines are commanding, declarative and that an expensive product is a bargain, with some discounts or free offers.

9. Numerous headlines:

Humor is a suspect element in advertising. Though it is extremely effective, it requires deft handling else it will fall flat.

10. Negative headline:

This headline is used indirectly to attack the competition and redirect the consumer to the advertiser's product. The copy of the advertisement is defined as ―all the written or spoken material in it, including the headline, coupons and advertiser's name and address, as well as the main body of the message.‖ An advertisement copy is a written or spoken message in an advertisement including words, sentences, and figures aimed to convey a desired message to the public. In short, the written matter and message used by the advertiser to convey his desired idea is known as advertisement copy.

The message is the heart of advertising. The words and pictures in the copy must win the hearts of readers. The main purpose of the advertisement copy is to influence the buyers and by that stimulate the

sales volume. Advertisement copy is the written matter or reading matter, the words, sentences, paragraphs, sub-heads, headlines, and figures which the advertiser wants to convey to the public.

A well-planned and drafted copy should:

1. Attract the primary and initial attention of the buyers.

2. interestingly hold the attention of buyers.

3. Awake and stimulate the interest of the buyers.

4. Create an impression in buyers to have memory value.

5. Convince, persuade or induce the readers.

6. Suggest and lead to specific responses.

The advertisement aims to make the public look, like, learn and buy. The A.I.D.A. formula; Attention, Interest, Desire and Action is very important here.

Scientific Advertising:

Advertising is necessary in the modem business world. A business without advertisement cannot be thought of. Advertisement aims at creating and maintaining the demand of the company. So an advertising programme should be prepared very carefully to serve the purpose fully. Scientific methods should also be used to make the advertisement quite effective and attractive to those for whom it is meant. The principles of advertising have been established through a good deal of research. A scientific advertising programme is drawn by considering all relevant factors connected with advertising.

Scientific advertising involves a careful study of the following factors:

1. Advertisability of the product

2. Market usually consists of groups of buyers for a product or service. A group of buyers consists of children, grown-ups, students, women or men. An advertisement can prove successful in the market when the characteristics of the product can satisfy the main requirements of the customers for whom it is meant. Decide on the advertising media and type of advertisement copy.

3. Product analysis is necessary for its acceptance by the customers. The needs and desires of the consumers are to be studied.

4. Preparation of advertising budget by analyzing the competition in the market, the area to be covered and defined objectives for the firm.

5. Media to be evaluated through its cost, effect and result. Expert opinions may be sought to understand the effectiveness of alternative media, length of message etc.

6. based on investigation and research, the actual execution of the advertising programme should be done. The preparation of advertising copy may be entrusted to experts who have skills and experience.

7. Evaluation of the result is necessary. An advertising programme is effective if sales are increased, desired changes in the consumers' habits are effected and prospective customers become buyers.

Why and When to Advertise?

The simple answer to the question ―Why do we advertise?‖ Is that either we have something to sell or someone has something we want to buy? In other words, we may wish to give something away, seek an exchange or invite donors. We make known our offer or need. Many people use advertising and enjoy the choices available to them.

We may sell a house, raise funds, sell products, buy second-hand products, launch a new product, employ people, find a pen-friend etc. as a result of facts known to others through advertising. Thus advertising is how we make known what we have to sell or what we want to buy so that we can sell or buy to our best advantage.

Advertising will be used only when it can fetch good results. It must have an economy and be more efficient as compared to other means of selling. For instance, when you take the case of a book-seller, he sends his salesman from college to college to sell his books and this is more effective than advertising. Advertising is used to make the salesmen acceptable to the people. Immediate results may not be there to justify the increased cost of advertising, but future sales can be boosted by the advertisement.

Causes of Failure of Advertising:

Advertising is the easiest and most economical means of tapping the wide market. But all advertising may not be successful.

From the point of view of advertisers and consumers, advertising may fail because of the following factors, (in brief):

1. Lack of consistent advertising policy.

2. Lack of confidence caused by exaggerated claims.

3. Lack of coordination between advertising policy and distributive policy.

4. Unimpressive appeals in the copy.

5. Wrong layout of advertising copy.

6. Failure to follow up on advertisements.

7. Non-sensible preparation of advertising copy, lack of thinking and time etc.

8. Lack of experimentation with different types of appeals.

9. Selecting the wrong medium.

10. Failure to inform the salesmen and dealers about advertising.

Kinds of Advertising:

The important classifications of advertising are Product and Institutional.

1. Product Advertising:

It aims at selling a particular product: This is the common way. A particular product with its brand is promoted through advertising. For example, Horlicks, Hamam, Bournvita, Viva etc. This type is again divided into primary and selective.

(a) Primary Advertising (pioneer):

This is a type of advertising used at the stage of introducing a new product to the market to inform the public as to its birth and other details. For example, pressure cookers, bicycles, scooters etc.

(b) Selective Advertising:

This type of advertising is used when the market is loaded with similar products. There will be stiff competition among the producers. This generally happens in the growing stage of a product's life cycle. Since competition is there, the advertisers aim to capture the market by influencing the demand for a specific product, probably supported by promotion activities. This type is also known as competitive advertising. For example, prestige pressure cookers, HMT watches, rallied cycles, Rajdoot bikes etc.

2. Institutional Advertising:

This type of advertisement is displayed to create goodwill for the firm rather than to sell its products. It

aims to make people, members of the advertiser's firm. It gives importance to the firm and wants to create a good impression about a particular manufacturer or shopkeeper. For example, Parry and Co; Godrej, etc.

This may further be divided into three:

(a) In Patronage:

In it, consumers are informed about the firm, its product and its policies.

(b) Public Relations:

It tries to create a favorable image about the firm, during strike periods etc.

(c) Public Service:

Here, the advertiser tries to create an image of public support, social services etc.

3. Commercial Advertising:

Commercial advertising or business advertising is concerned with selling products or ideas to increase sales volume. They may be:

- Trade advertising – relating to trade
- Industrial advertising – relating to Industrial goods
- Professional advertising – relating to professions (Doctor, Accountant etc.)
- Farm advertising – relating to farm products

4. Non-Commercial Advertising:

Non-profit organisations adopt this type of advertisement; for instance, inviting donations, financial aid etc.

5. Rational and Emotional Advertising:

If the advertising explains the speciality of a product, such as using the B.K. Soap, Kumari powder etc., is a case of rational type. When publicity is made to effect a lady look like a cinema star, associated with charming beauty, it is a case of emotional type.

6. National and Local Advertising:

When advertising is sponsored by manufacturers or producers, it is a case of national (general) advertising. When the advertising is done by retailers, it is a case of local (retail) advertising.

Is Advertising a Waste?

When the objectives of an advertisement are not realized, then the amount spent on advertising is a waste. If it is so, this amount can be utilized for some beneficial purposes-improving the quality or other services. One should consider all relevant factors before deciding on its usefulness or waste. The advertisement aims to promote sales of products or services. Advertisement awakens the public at large. The cost of advertisement is included in the price, i.e., increased price.

Advertising is mobilizing marketing wheels. A country like ours is developing in all fields, and this is because of advertising of new and developed ideas. Social advertising is a widely adopted method. As far as the consumers are concerned, advertisement is a waste, when it conveys incomplete information or false information. However, the cost is finally paid by consumers. At the same time, if the advertiser increases sales because of advertising, it is not a waste. If the expenditure is unproductive, then it is a waste. Advertising is a wheel, on which marketing moves.

Advantages of Advertising:

1. The commercial world has become one.

2. Close touch between consumers and producers is facilitated.

3. If furnishes necessary information to the consumers.

4. It helps in disposing of products.

5. It is a boon for new products.

6. A brand gets popularity.

7. It is a boon to retailers.

8. Industries can flourish.

9. Consumers know the comparative benefits.

10. It creates goodwill.

Despite its cost, advertising is preferred by all, as advertising opens the door to progress and prosperity.

All the advantages may be considered in understanding the merits in favor of ―advertising is not a waste.‖

Follow-up System in Advertising:

The follow-up system, as the very name suggests, is a type of advertising to approach the customer utilizing correspondence. The advertiser receives enquiries from customers in response to the advertisement made. The enquiries are properly entered in a book and replies are sent. By sending a mere reply it does not come to an end.

An enquirer may be followed regularly through correspondence till it yields a result. Letters may be sent one after another, at an interval of about two weeks, till the result is achieved or finally stopped. Upon sending a reply, if nothing is heard from the enquirer again he is approached by writing letters. This ―follow-up system‖ is effective in concluding a sale.

Keying the Advertisement:

Generally, there arises a problem in choosing ―how to advertise‖. We see the Newspapers, T.V., Radio, etc. are full of advertisements. Everybody advertises in one or the other way. However, one has to select the best medium, which fulfills one's purpose. This is possible by ―Keying‖ the advertising. ―Keying‖ means adopting such methods while advertising so that the result may be easily assured.

The following are the methods:

1. By giving different addresses to different media, and when enquiries are received, it can easily be found out through scrutiny which publication fetches more enquiries. The publication which facilitates more enquiries may be selected and the rest may be dropped.

2. Different papers may be selected for the advertisement of different departments.

3. A coupon may be left with the advertisement with a request to make enquiries along with coupons.

4. Request may be made with the customers to name the particular medium through which he gets information.

Evaluation of Advertising:

By the execution of the advertising programme, the responsibility of the management does not come to an end. It has to evaluate the advertising programme and this refers to careful exercise to evaluate the advertising result and the objectives, to assess the effectiveness of the advertisement programme.

Need:

(1) What has been done and what is planned for the future for an intelligent decision?

(2) To plan for future improved decisions.

(3) To adopt a proper and effective communication mix and media mix.

The methods, generally, adopted to evaluate communication of advertising are:

1. Enquiry Test:

The number of enquiries received against advertisement is a test to know the effectiveness of advertising. To give more encouragement, the following techniques can be adopted:

(a) Couponing:

Advertisements may carry coupons. The readers are encouraged to fill out the coupons with the address and return them to the advertiser. And in return, detailed information of the product, generally, in the form of a booklet will be sent to the interested persons. An advertisement with a higher number of enquiries is considered of enquiries is considered favorable

(b) Split Run Test:

The advertising copy is differentiated, in approach, appeal or layout and of course with different addresses of the advertiser. The readers are encouraged to send enquiries. The copy generating a larger number of enquiries is considered more effective.

2. Recognition Test:

A sample of readers is selected to measure the effectiveness of an advertisement, read by them. For this, a survey is conducted by the interviewers. The readers have also read other advertisements, including the one tested. They are asked to identify them. Here, a copy, which is recognized by a large number of readers, is considered more effective.

3. Real Test:

It is based on memory. It attempts to measure communication effectiveness through a survey. The survey is made on those who have seen the advertisement. And copies of the publicity may be circulated among them. Opinions on both these (survey and copy) are collected from the people. Through this, the medium, accepted by the larger group is adopted. Slogans are short catchy phrases used in advertisements. They

strike the attention of readers and hearers. They are pregnant with sales ideas. They carry clear meanings and felicitous phrases. They linger in the memory for a long time.

3.13 service differentiation strategies

Competition in the marketplace is a significant business factor for most companies. Knowing how to best set your company apart from others is key to engaging with customers and making sales. Services differentiation is one strategy for improving visibility in the marketplace. In this article, we explain what services differentiation is, and list types of services differentiation to try and provide tips for differentiating services.

What is service differentiation?

Services differentiation is the specific way in which a company provides certain services to its customers. Services differentiation is more common in industries with significant customer-facing interaction, like travel and leisure activities, and less common in industries that work primarily business to business or provide products rather than services. However, even these product-driven companies can employ service differentiation as a tool to increase customer satisfaction and, potentially, sales.

Types of services differentiation

There are a multitude of ways to use service differentiation. Consider these 15 examples to try in your organization:

- **Environment**

The environment in which your customers or clients interact with your organization is a great service differentiation opportunity. Consider the architecture, interior design and convenience items, like pillows or access to beverages and snacks, in your space for optimal customer comfort during their interaction with your company.

- **Customer service**

Most companies have a customer service department to help clients solve problems and ensure customers have a positive experience with the organization. Giving excellent customer service that offers support and communication options beyond what your competitors provide is an excellent way to differentiate your service in the marketplace.

- **Branding**

Consistent and effective branding can help entice potential customers to engage with your services or products. Branding includes elements like the colours and design you use in your logo, documents and other marketing and customer materials. Usually, branding also includes your slogan or tagline, which your customer service or sales team will likely use when interfacing with customers.

- **Functionality**

By maximizing the functionality of your product or service, you're improving the customer experience with your company. Functionality can also apply to how your customers communicate or interact with your organization, not just the product or service you sell.

Features of service differentiation

You can use different features to improve your service options and provide customers with choices. For example, a hotel might offer a choice of a cookie or a bottle of water to guests checking in. This feature is relatively low cost and requires little additional work from staff, but it provides a benefit to guests that they might view as a competitive edge.

- **Reputation**

Your company's reputation is a key service differentiation option. Take active steps to not only improve but to share your reputation broadly in the marketplace. Ask customers for feedback and testimonials you can post on your website and social media pages. Find ways to show your company is trustworthy and dependable to your target demographic.

- **Reliability**

Keep the services you offer reliable. Make plans and backup plans to address potential problems before they happen so you can quickly resume your work as normal. For example, ensure your website is always operational, even in the event of a massive increase in traffic by having a backup server to support demand.

- **Convenience**

Make your services easy to access. Many customers will choose a convenient option over a more complex, though potentially preferable, service. Ensure customers can access your services, storefront, customer service team or any other business offering you have quickly and easily.

- **Usability**

Make any products, applications or digital offerings you provide user-friendly and as intuitive as possible.

Should a customer want to make a service or product purchase online through your website, do your best to make the purchasing process simple, with a limited number of steps and actions required to complete the transaction.

Terms of service differentiation

Some services require contracts with terms and conditions. If your company offers a service like this, keep your terms as simple, concise and straightforward as you can. Review your competitor's terms and find a way to make yours more enticing to potential customers.

- **Customization**

Offer customization options when applicable for your products or services. For example, you might assign a specific sales or customer service representative to each customer, so when they call they know who they're talking to.

- **Self-service**

Implement self-service options for customers when applicable to your organization and convenient for the customer. Some customers prefer to solve problems or access information on their own without working with a company representative during business hours.

- **Options**

Offer your customers a variety of options in either products or services. Having choices often entices customers to make not just an initial purchase but also follow-up purchases. Additionally, if your competitors don't offer as many options, you'll earn a competitive advantage over them with this services differentiation tactic.

- **Pricing**

Consider inventive pricing structures for your products or services to maximize your impact in the marketplace. For example, a sandwich shop that does a lot of business during lunchtime with regular customers could offer a weekly lunch deal where the customer pays a flat rate at the start of the week and gets a different meal combo each day.

- **Speed**

Efficiency and speed are other excellent service differentiation strategies. Consider a business like a car wash. Implement a system in which drivers can get their cars washed in less than 10 minutes to appeal to customers who want to save time when completing errands.

Tips for differentiating services

Companies have a range of options for differentiating their services, depending on industry, customer demographics and other factors. Consider these tips when creating your services differentiation plan to ensure you optimize your strategy:

• **Consult your customers.** The goal of service differentiation is to increase customer engagement and purchasing. Find out what your customers want and implement those specific strategies.

• **Speak with your team.** Look for opportunities by asking your team and colleagues what they think would improve your competitive edge in service differentiation.

• **Have a person answer the phone.** If possible, have an employee answer all phone calls rather than an automated answering service.

• **Maintain customer focus.** Ensure any services differentiation strategies you choose to use put the customer first.

• **Choose a few.** Rather than implementing 10 or 15 strategies, look for two or three that will best suit your organization and your customers' needs.

• **Build relationships.** Take time to build relationships with your customers to establish loyalty. Many service differentiation strategies help you do this.

• **Track progress.** Once you've implemented a services differentiation strategy, track it to ensure it's helping your company meet goals and objectives.

• **Watch your competitors.** See what service differentiation choices your competitors are making to ensure you're maintaining your competitive edge in the marketplace.

3.14 Unit End Questions

A. Descriptive Questions

Short Questions:

1. Define segmentation.
2. Explain what is targeting and positioning?
3. Describe briefly about positionjng through product delivery strategies?

4. What do you understand by positioning through distribution strategies?
5. What is Service Differentiation Strategies?

Long Questions:

1. What is a STP strategy for services? Explain it with the need for segmentation of services?
2. Describe about positioning through pricing, sales promotion and advertising?
3. What is segmentation, targeting and positioning. Explain in detail with its features?
4. Describe about the bases for the segmentation services?
5. Explain positioning through sales promotion and advertising?

B. Multiple Choice Questions

1. Market segmentation is required

a) for avoiding cold calls
b) to increase production
c) for territory allocation
d) for focused marketing

2. Market segmentation means

a) dividing the sales team into small groups
b) dividing the marketing process into small steps
c) dividing the territory into small areas
d) All of these

3. Standardized and customized flow of activities, simple and complex number of steps and customer involvement by which a service is delivered is called _____.

a) Place Mix

b) Physical Evidence Mix

c) Process Mix

d) People Mix

4. Total customer value consists of all of the following components except_____

a) Personal Value

b) Product Value

c) Service Value

d) Image Value

5. _____is the difference between customer expectations and perceptions.

e) Customer Delight

f) Customer Satisfaction

g) Customer Gap

h) The supplier Gap

Answers

1-d, 2-d ,3-c, 4-a, 5-c

3.0 References

Lovelock, C., & Wirtz, J. (2007). Services Marketing: Textbook. Publisher.

Lovelock, C., & Wright, L. (1999). Principles of Service Marketing and Management. Publisher.

Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). Services marketing: Integrating customer focus across the firm. McGraw-Hill Education.

Gronroos, C. (2007). Service management and marketing: A customer relationship management approach (3rd ed.). Wiley.

Certificate/Diploma Course in
Retail and Sales Management

UNIT – 4 Marketing of Financial services

STRUCTURE

4.0 Learning Objectives

4.1 Introduction to Marketing of Financial services

4.2 Introduction to Financial services banking industry

4.3 Insight into Indian Banking Scenario

4.4Classification of Banking Industry

4.5 Meaning of Marketing of Banking Products

4.6 Need and Marketing Approaches to Banking

4.7 Issues and Strategies for Enhancement of Banking Services-

4.8 Modern Ways to Market Banking Services

4.9 -Introduction to Insurance Services-

4.10 Life Insurance and General Insurance in India,

4.11 Insurance Companies in India -Marketing of Insurance

4.12 Role of Insurance Advisor

4.13 concept of Mutual fund marketing

4.14 Scope and Elements of Mutual Fund Marketing

4.15 Elements of mutual fund marketing

4.16 Housing Finance

4.17 Issues and policy prospects

4.18 Private sector initiatives

4.19 Unit end questions

4.20 References

4.21

4.0 Learning Objectives

After studying this unit, you will be able to:

- Outline the basics of Indian Banking scenarios
- Summarize the Mutual fund marketing.
- Summarize the difference between General and life insurance.
- Describe the Housing Finances.

4.1 introduction to marketing of financial services

Introduction

Every day we interact with various economic activities like - getting courier delivered to the requested address, making phone calls to friends, relatives, or clients, having coffee at the coffee shop, or taking the metro to the commute office. Such activities are called services because they involve deeds or acts and are offered by one party to another for sale.

Services differ from goods in many ways. The way a product is produced, distributed, marketed, and consumed is not the way a service is. Hence, a different marketing approach is necessary for the marketing of services.

Today, in this post we are going to explain – What services are? What are the characteristics of services? How services are marketed?

Definition of Services

According to the American Marketing Association services are defined as ―activities, benefits or satisfactions which are offered for sale or provided in connection with the sale of goods.‖

According to Philip Kotler and Bloom services is defined as ―any 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.‖

Characteristics of Services

1. Intangibility – Services cannot be touched or held, they are intangible. For example – you can touch your Smartphone. But, you cannot hold or touch the services of your telecom service provider.

2. Inseparability – In the case of services the production, distribution, and consumption take place simultaneously. These three functions cannot be separated.

3. Variability – It is impossible to provide a similar service every time. You'll experience some change every time you buy a particular service from a particular service provider. For example – Yesterday you had a coffee at CCD. Today, you are again at CCD to have a coffee, but you have got a different place to sit today; the person serving you coffee is different today; other people having coffee are also different today. Hence, your experience of having coffee today is different as compared to yesterday.

4. Perishability – You can store goods, but it is not so in the case of services. Services get perished immediately.

5. Participation of customer – The customer is a co-producer in the production of services. For delivery, customer involvement is as important as is of the service provider. For example – if you went to a parlour for a haircut, how it cannot be possible without your presence and involvement?

6. No ownership – In the sale of services, transfer of ownership does not take place. It means to say that consumers never own the services.

Marketing of Services

A different marketing approach is necessary for services marketing because services differ from goods in many respects.

Difference between Services and Goods

Basis	Services	Goods
Tangibility	Services are intangible in nature. They cannot be touched or hold.	Goods are tangible in nature. They can be touched and hold.
Separability	Services are inseparable in nature. Production, distribution, and consumption of service take place simultaneously.	Function of distribution and consumption of goods can be separated from the function of production.

Ownership	Services cannot be owned. They can be hired for a specific time period.	Goods can be owned.
Perish-ability	Services get perished after a specific time period. It cannot be stored for future use.	Goods can be stored for future use.
Heterogeneity	Services are more heterogeneous. It is very difficult to make each service identical.	Goods are less heterogeneous. It is possible to make each goods identical.

Customer Service in a service firm is highly interactive. The customer interacts with the firm physical facilities, personnel, and tangible elements like the price of the service. The success of any service firm depends on how its performance is judged and perceived by the customer. Today, Service Firms are becoming highly competitive, so, service firms need to provide high-quality services for their survival.

An expanded marketing mix for services was proposed by Booms and Bitner (1981), consisting of the 4 traditional elements–product, price, place, and promotion and three additional elements–physical evidence, participants, and process. These additional variables beyond the traditional 4 P's distinguish _customer service' for service firms from that of manufacturing firms.

What is financial service marketing?

Financial service marketing is the process of promoting the products and services of a financial services firm. Marketing efforts for any company typically have the goals of raising brand awareness, attracting customers, making sales and generating revenue. Here are some examples of financial services firms that may benefit from marketing:

• Commercial banks

• Credit unions

• Financial planning firms

• Accounting firms

• Investment banks

• Insurance companies

• Brokerage firms

• Mutual funds institutions

These organizations may aim to help customers by providing support services, such as:

• Banking

• Loans

• Wealth management

• Insurance

• Financial advice

• Stocks and investments

• Accounting and bookkeeping

• Tax consulting

Who uses financial services?

Financial services are useful to a variety of institutions. This is because many organizations and agencies, whether for-profit, nonprofit or government, require funds and resources to operate. Financial service businesses have teams of experts in complex financial and economic matters and can help companies or individual clients with managing money and capital responsibly. Marketers for finance businesses can create content for specific target audiences to capture attention and attract clients. Here are some common clients of financial service firms:

• **Individual customers:** Many people use financial service firms like banks daily to save and transfer money, take out and pay back home and auto loans and make investments.

• **Commercial businesses:** These clients may pay financial services companies to manage their books and ensure adherence to tax and other business-related financial laws and regulations.

• **Healthcare facilities:** Healthcare facilities often work with insurance companies and other financial institutions to process insurance claims and transfer payments for services rendered.

• **Educational institutions:** Schools, colleges and universities may require the services of accounting firms and other finance businesses to keep track of school expenses and support the finances of staff and students.

4.2 introduction to banking industry

THE CONCEPT OF MARKETING

Marketing management is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives. Basically, marketing is a business technique devised to sell products and services keeping in mind the needs and requirements of existing and prospective customers. Marketing is based on five concepts:

- Product concept
- Production concept
- Marketing concept
- Social marketing concept
- Selling concept

IMPLEMENTING THE MARKETING CONCEPT

To implement the marketing concept/ companies need to focus on 3 basic areas:

Target market: The first step is to identify the target market. This can be by market research and deciding which target market will give the best returns.

Value proposition: In this concept/ the companies decide what strategy they need to adopt. The combination of above- the-line (ATL) and below-the-line (BTL) activities should be adopted. The kind of value should the firm create and deliver also decides marketing success.

Demands of the target market: A preferred step in marketing research is the consumer preferences study. The study will help the firm determine the needs wants and demands of the target market.

Marketing of Banking Services

Bank marketing is the sum of functions directed at providing services to satisfy customers' financial needs

and wants more efficiently and effectively than the competitors in consonance with the organisational objectives.

Application of marketing techniques in banking means a coordinated organizational effort to reach to the customer to fulfil specific needs for getting patronage through use of people, products or services, price, promotion, branch outlets and distribution policies for maximising customer satisfaction.

In a competitive market, banks sell their services through branch counters throughout the entire country through the employees who act as salesmen recruited by the management.

Features of Bank Marketing

Banking products cannot be seen or felt like manufactured products (intangibility)

In banking products' marketing/ the product and the seller are inseparable (inseparability)

Banking products are introduced and delivered at the same time; they cannot be stored and inspected before delivering (perishability)

Standardisation of banking products is difficult (variability)

NEED FOR BANK MARKETING

Awareness among customers: Modem technology has caused awareness among customers of the developments in the financial system. Financial needs of the customers have grown up to a large extent like quick cash accessibility, money transfer, asset security, increased return on surplus funds, financial advice, deferred payments etc. With a wide network of bank branches, customers expect the banks to offer a more and better service to match their demands and this has forced banks to take up marketing in right earnest.

Quality of service as a key factor

With the economic development, fast change has been seen in every activity, and banking has been no exemption. Service quality is a key aspect in the competitive world, which is market driven and banks have faced this emerging scenario. In fact, it cannot be ignored that quality will in future be the sole determinant of successful banking ventures and marketing has to focus on this most crucial aspect.

- **Growing Competition**

Increased competition is a matter of concern for Indian banking industry and other agencies both, local and foreign, offering value-added services. Competition is no more confined to resource mobilisation but

also to lending and other areas of banking activity. The foreign commercial bank with superior technology, speed in operations and imaginative positioning of their services has also provided the necessary reasons to the Indian banks to innovate and compete in the market.

- **Technological Advances**

Technological innovation has resulted in financial product development especially in the international and investment banking areas. The western experience has showed that technology has not only made execution of work faster but has also resulted in greater availability of manpower for customer.

Objectives of Bank Marketing

The core objectives of bank marketing are:
Maximising the profitability

Providing high return on investment to investors
Developing an image and reputation
Developing new products to meet the needs of emerging customer requirements
The specific objectives of bank marketing are:
Increase in deposits
Increase in loans
Diversification of products
Directing customers to specific products. The achievement of these objectives requires that the marketing sector should perform the following functions:

Analysis of customer behaviour, attitudes and market segmentation

Conducting market research to collect, investigate analyse customers' attitudes and market developments to achieve maximum attainment of objectives

Designing new products and/or services

Focusing on Advertising, publicity and promotion
Keeping check on pricing
Defining strategies, administering and controlling the marketing programme
Predicting changing customer profiles and consequent product changes

Bank Marketing in India

Initially, the marketing concept was introduced in the Indian banking sector in the form of advertising and promotion. The first big step in the direction of bank marketing was initiated by State Bank of India in 1971.

Group-wise segmentation was launched by SBI to understand the specific needs of groups of customers. The bank recognised itself on the basis of major market segments, dividing the borrowing customers bases on activity and four major market segments, i.e. commercial and institutional, small industries and business, agriculture and personal and services banking segments.

- A few schemes like home loan accounts, education loans, instalment credit etc. were introduced to the traditional services range.
- Foreign banks also adopted different marketing techniques successfully in India in fund mobilisation and promotion of consumer credit.
- Post liberalisation there was remarkable growth in competition in the financial sector, especially in the banking sector.
- The public sector banks along with old private sector banks, new generation banks, and foreign banks revamped marketing strategy.
- Competition leads to quality gap as some competitors, especially foreign banks and new private banks provide quality core and peripheral services using advanced information technologies and develop
- Aggressive marketing and technological innovation help private banks to make inroads into the bank market.
- In most banks, management personnel had little idea and experience about marketing in a competitive environment. They previously focused mainly on deposit mobilisation and achieving deposit targets.

The current marketing strategy shifted away from deposits to capturing prime customers wanting credit facilities, raising funds from the market, offering more and more technology oriented products and even recruiting and retaining skilled

personnel

The marketing of loans has become a major occupation of management at all levels.

Indicator	Pre-liberalisation	Post-liberalisation
Customer feedback	Mandated by committee reports and law	Consciously practised as a way of banking
Product Innovation	Done based on regulator's guidelines/suggestions	Willingly undertaken
Tools	Manual	Technology based
Delivery Channel	Branch	Delivery channels like ATMs, Tele-banking, Internet Banking, Mobile Banking
Branch Ambience	Similar to government offices	Providing supermarket buying experience
Orientation	Inward looking	Outward looking
Consumer Status	Less importance of customers	Customer-oriented

Table :Competition in the Indian Industry before and after liberalisation

Challenges of Bank Marketing in India

- **Competitive Environment and Technology:** Huge capital base, latest technology, innovative and globally tested products/services are the areas where the domestic banks need to improve to keep pace with technology, innovation, and globally accepted products.
- **Transformation of Human Capital**: Another important challenge is the transformation of human capital. There is the need to develop and manage the human resources to make them adaptable to the changing environment. Banks should provide on-the-job training to the staff to work with latest technology.
- **Rural Marketing:** The Indian banks face challenge to enhance rural marketing to increase their customers. Banks should open their branches not only in the urban and semi-urban areas but also in the rural areas.

Marketing trends in the Indian banking industry

Insight-Driven Marketing

The significance of consumer insight and data for financial marketers will be more important than ever. In the past, a majority of financial marketers had no access to big data because they lacked the skills and

budget to make an impact. New tools and technologies make advanced analytics available for all sized organisations, while digital channels and the desire for personalised offers make the investment in data analytics mandatory for success.

Integration of Mobile Communication

Mobile has become a part of a bank's or credit union's marketing plan as consumers do a significant proportion of their researching, shopping and buying on their smartphones. This includes a mobile optimised and responsive website, and may also involve custom apps and mobile targeted campaigns. Leading organizations in the retail and other industries are already leveraging the mobile device for location-based offers and sales messaging. As consumers switch to online and mobile banking channels, marketing budgets must do the same.

Increasing Focus on Return on Investment (ROI)

Marketing campaigns should be measured to gauge success. The advanced tools can now look at the customer purchase journey to determine what blend of channels were used in the decision process.

With costs being cut across most organizations, the need of validating the return on marketing investment has never been more important. Being able to link specific revenue outcomes to marketing initiatives can "close the loop" for financial marketers. These same marketers must now shift where they spend their budgets to reflect this potential.

Customisation and Personalization

With the improved consumer experience and the potential of advanced data analytics in banking, personalised communication must get a higher priority in the years to come.

The benefits of personalization can be in the form of higher response and conversion rates, brand loyalty and repeat customers, amplified reach and increased relevance. Consumers are inclined towards custom solutions based on their personal situation in real time.

Consumers expect emails to have more relevant content. Consumers will have less tolerance for online and mobile advertising that is too highly personalised.

Optichannel Marketing

Besides multichannel or omnichannel, the concept of Optichannel in marketing refers to the ability to communicate and support a consumer's shopping and buying process using the channel that is best for them given the consumer's overall objective. The aim is to support a smooth transition between digital

and physical delivery channels as well as between digital and mass media communication channels for the best possible experience.

Financial marketers need to look beyond single channel silos of marketing, where there is a disconnect between the ways a consumer absorbs marketing and how banks and credit unions send messages.

Social Media Mainstream

Social media marketing has become mainstream in financial industry since most of adults today use social media. Of all the social networks, Facebook is the most popular for marketers since the network is the largest and the network has built a top-notch ad system. Facebook's data and targeting tools help marketers to personalise their social campaigns.

Twitter, Snapchat and Instagram are also becoming more popular in certain areas of the population. The present challenge for financial marketers is to link social media campaigns to sales. This challenge is what is holding most marketers back from increasing investments in social marketing.

BANK MARKETING STRATEGIES

Market strategies are designed after taking into account the strengths and weaknesses of the bank. The factors which play significant role in framing marketing strategies include market penetration, market development and new product range for customers of various segments.

Blogging: A blogging strategy for a bank can increase traffic to its site, build its social media profiles, and establish expertise. To produce a well-designed, SEO-optimized blog the following aspects are taken into consideration:

- Delivering a great user experience.
- Providing a call-to-action that ties in the services.
- Using images and videos to diversify content.
- Establishing a consistent and easily readable post format.
- Social Media: It is a must-use tool for bank marketing and establishing a brand presence amongst your competitors. The following points are remembered while creating content that is self-promoting:
- Posting frequently or regularly.
- Preparing for negative customer feedback, broadcasting the same message across all channels.
- Facilitating word of mouth through customer engagement.

Customer Service: Unique customer service can be built into the marketing strategy and ultimately used to boost brand image. A great brand image helps to define a bank more distinctly in the marketplace, and it can create a sense of perceived value in the minds of consumers which often equates to profitability over the long haul. Effective customer service can be delivered through: integrate self-service with agent assistance; handling calls more intelligently; initiate proactive contact; make more effective use of customer data and segmentation; use inbound marketing to reach customers outside the branch, etc.

Digital media

Customers are connected to digital media very easily.

Graphics, videos, audio (radio or podcast), and web pages are extensively used to innovatively engage with customers.

With digital media/ content marketing strategies can be developed to connect with customers and position your bank for the best kind of marketing.

Building a strong bank brand often requires more thought towards strategy, creativity, and innovation to effectively drive consumer engagement and to maximize the advantages of today's digital media channels and display opportunities.

Rewards programmes: For designing a rewards program for customers, three primary goals are considered. There is an increase in consumer loyalty when they become committed to a brand and make repeat purchases over time.

- Extending customer retention.
- Cross-promoting services and products.
- Increasing customer loyalty through consistent use of debit card.
- Customer retention is influenced because the longer you stay with the bank, the more free money you earn.

Rewards program providing the perfect opportunity to cross-promote their savings accounts. Banks have a wide choice in their marketing plans.

Attracting and acquiring customers with price-based promotions, or develop new customer relationships with a more brand-based strategy.

Strategic Partnerships

Partnership with organisations helps make a strong customer base. This could be through entertainment

companies, real estate agencies, or nonprofits.

Connecting with partners and Grafting strategic programs positions bank distinctively among competitors.

Banks need to realise that they offer parity services and potential customers have an extremely difficult time differentiating between banks.

Customer Data Analysis

Data gives a clear insight into your existing customer base.

With data, banks can better understand behaviour patterns and offer relevant deals that fit within their customers' daily lives.

Banks need to leverage their data to better understand and serve their existing client base.

Major Components of Bank Marketing

The marketing strategy of a business consists of seven components which are named as marketing mix. The combinations of marketing mix of a bank vary with the situation or environment. The marketing mix includes product, price, place, promotion, process, people and physical evidence. These are considered as the 7 Ps or 7 elements of bank marketing strategy. An appropriate blend of these Ps is necessary for a well-orchestrated marketing strategy.

1. **Product**: The bank services are of intangible nature. Different varieties of products are attractive, innovative and competitive. Service/product of an optimal mix of core and peripheral dimensions will increase the attraction of the product. Banking products are divided into core products, formal products and augmented products/peripheral services. For a bank, core products are savings, banks, term deposits, current accounts, cash credits, overdrafts, term loans, etc. Formal products include two or more core products having strong marketing content to meet some customer needs, e.g. unfixed deposit scheme. The Augmented product is a formal product related to peripheral services, e.g., ATM card or credit card.
2. **Price**: Price includes the interest, fees and commission charged and paid by the bank. Price decides the profitability of the banks. Indian Banks have not felt any need to develop their own pricing strategy. But the scenario has steadily changed to deregulated market due to liberalisation. Through RBFs credit policy, banks have flexibility in their pricing policy.
3. **Place**: This component requires placing or distribution of services to the ultimate customers. The

service mix of banks moves through different distribution channels, such as, the branches, the executives and the staff. A suitable location/ point for the establishment of a bank branch is very important. It should give convenience and comfort to the customers. The behavioural profile and efficiency of the bank personnel is also equally important. Effective marketing requires good appearance and comfortable surroundings.

4. **Promotion**: It involves communication with the customers/prospective customers on almost all the aspects of the marketing mix like advantages of different products, details of how it is delivered, details on the interest and commission paid and charged by the bank, etc. Marketing promotion aims to inform the prospective customers and to persuade them through advertisement, personal interaction and sales campaign. Four components of promotion strategy are advertising, sales promotion, personal selling and publicity.

   (a) **Advertising**: It includes non-personal presentation and promotion of ideas, goods and services by an identified sponsor. In bank marketing, it is the bank which directly talks about itself, and pays for doing so. The bank tells the prospective customer the features of its products and how it satisfies the customer.

   (b) Sales Promotion: It is effective in motivating the customers and bank employees. It comprises of short term activities to boost the banking business. It helps in increasing market share and promoting loyalty towards a brand. The tools of sales promotion include gifts, contests, fairs and shows, discounts and commissions, low interest financing, entertainment and travelling.

   (c) Personal Selling: It involves informing the prospective customers and persuading them to purchase products through personal communication. In personal selling, inter-personal communication happens. Moreover, personal selling may be interchanged with persuasion.

   (d) Public Relations and Publicity: Public relation is a two-way communication system to develop mutual understanding between a banking organisation and its customer. Most probably it is in the form of a press release to newspapers and banking magazines or financial news. In banks, there is a Public Relations Department and Public Relations Officer. The other components of public relations are press bits distributed during press conference, speeches, seminars, annual reports, charitable donations, sponsorships, community relations, etc.

Process: With 156 reforms in the banking industry, basic changes in banking systems and procedures are necessary for achieving customer satisfaction. Customer-friendly and marketing-oriented processes will

give uniqueness to the product. The work-flow in a bank branch should be customer-oriented and the reporting system should be abolished to reduce the workload of the bank staff. Information and communication technology-based systems and procedures will smoothen the banking process.

People: They are an important component of bank marketing strategy as human factor is very influential in services marketing. The quality of service provided by a bank depends on the quality of people available to the bank. A combination of dedicated and committed team of efficient professionals and new information technology could produce the best results.

Physical Evidence: Banking products are intangible, so banker needs to use the instrument of physical evidence in different forms in banks. Proper upkeep of branch premises and interior decoration of branches are originally part of place strategy. Another area of physical evidence is the stationery items like cheque book, pass book supplied to customers and other stationery materials in use.

Customers' Opinion on Marketing Strategy

- Customer awareness on new marketing strategies during liberalisation period reflected the customer's opinion on marketing strategy.
- Commercial banks have been provided the freedom to compete with each other and with other financial agencies after liberalisation period. They have been forced to apply new marketing strategies during this period.
- Most of the customers are quite aware of banks' new marketing strategies. Awareness is high in urban branches, followed by semi-urban branches and rural branches. There is considerable difference among locations regarding customers' opinion.
- Customer's opinion on need for marketing in the liberalised banking scenario revealed that majority of people treated marketing as very much essential. Only a few customers rejected it.
- Marketing is considered very much essential in public sector banks (PSBs) in comparison to old private sector banks (OPSBs).
- There was considerable difference in the opinion of urban/ semi urban and rural respondents regarding bank marketing.

Aggressive Bank Marketing

The concept of aggressive marketing is extensively used in many banks, especially in new generation banks in the form of aggressive lending and mobilising deposits at higher rates of interest.

- Majority ban personnel/ opposed aggressive marketing'n banking in the context of financial and

banking crisis in the developed countries.

- Sector-wise analysis revealed that a little less than half of PSBs opposed it while more than half of OPSBs opposed it.
- While a higher percentage of employees in rural branches was against aggressive marketing in banks, majority in urban branches favoured it.
- Aggressive marketing customers expect proper and timely services and relationship marketing.
- Banks are aggressively marketing a new form of high cost credit intended to boost their fee income at the expense of the most vulnerable consumers.

Methods of Introducing New Products

- **Personal contact: I**t involves face-to- face selling and includes data-based marketing, relationship marketing and benefit selling to effectively communicate to consumers. A major advantage of personal contact is the opportunity to ask and answer questions and offer rebuttals to consumer objections or misperceptions.

  Media: Print media and electronic media have become a major source of knowledge regarding banks and bank products. Sector-wise and location- wise analysis revealed the difference in opinion of customers regarding media as a source of knowledge.

- **Telephone contact:** Telemarketing is a method of direct marketing in which a salesperson contacts customers to buy products or services, either over the phone or through a subsequent face to face or Web conferencing appointment scheduled during the call.
- **Pamphlets**: They can be used as a source of knowledge about products. Sector-wise analysis revealed that use of pamphlet is higher in urban branches in comparison with rural areas.
- **Existing customers:** New bank marketing strategies focus on retaining existing customers and drawing in new customers interaction showed that banks are very much conscious about competition from other financial agencies including new generation banks and foreign banks. So to compete with others, new strategies, including effective use of customer relationship marketing, are required.
- **Websites**: It refers to a broad category of advertising that takes many different forms, but generally involves any marketing activity conducted online. The interactive space of the Internet simplifies a bank's ability to track, store, and analyze data about a customer's demographics, personal preferences, and online behaviour.

The banking system is on the threshold of change and continuity in growth and development, of individual customer needs and corporate practices, technology and competitions. The role of marketing in the banking industry continues to change. For several years the primary focus of

bank marketing was public returns. Then the focus shifted to advertising and sales promotion. That was followed by concentration on the development of a sales culture. At present, the target is on the individual customer meeting and even anticipating their needs and developing trusting, long- term relationships by delivering high quality personalised service. Marketing both as a philosophy and an activity will contribute immensely to the realisation of goals both immediate and future.

4.3 insight into indian banking SCENARIO

The Indian banking and financial system have come a long way since its early days. As of 2022, the total assets across all banking sectors (public and private banking) crossed $2.67 trillion.

India has one of the world's largest retail banking and financial services institutions - with 12 public sector banks, 22 private banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks, and 96000+ rural cooperative banks, along with other credit institutions.

This is a long jump from its pre-independence or post-independence phases. Before we got independence, India had just 600 banks, with the Bank of Hindustan founded in 1770 in Calcutta being the very first established bank in the country.

Prominent among these is the Imperial Bank of India, which was formed by merging three existing banks in 1921. The Imperial Bank of India was nationalised in 1955 and became the State Bank of India, which is today the largest public sector bank in India.

Similarly, if we look at the post-independence scenario, the banking system in India focused majorly on providing financial services to the poor and rural populations, which largely depended on local money lenders for financial assistance.

With this aim, the Government of India nationalised the banks under the Banking Regulation Act of 1949, and a total of 14 nationalised banks were present, including the Reserve Bank of India (RBI).

However, the most significant push to India's financial system came in 1991, when the government invited private players to invest in India. This led to the liberalisation of the banking system in India and led to the formation of the top private banking institutions like HDFC Bank, Axis Bank, ICICI Bank, DCB, and IndusInd Bank.

Going by this trend, the future of financial services in India is on a solid growth trajectory, with India now surpassing the UK to become the 5th largest economy globally.

Here's a look at the current trends shaping the global financial services industry and the opportunities it

presents for the banking system in India.

Banking Since 2020: The Global Outlook and How it is Shaping the Indian Banking Sector

The global economic outlook looks gloomy, as several factors hinting towards a recession-like scenario.

First, the geopolitical events, especially post-COVID-19 and the Russia-Ukraine war, have had a lasting impact, and as per the International Monetary Fund, the global growth projects were downgraded to 3.2% for 2022.

These include the issues due to global oil prices remaining volatile, sanctions imposed on Russia by Western countries, and continuing energy shortages that could lead to high costs.

However, despite the global challenges, India's overall financial system seems to be going steady and doing relatively well.

As a result, the IMF projection for India's economic growth in 2022 is at 6.1%, ahead of China (4.4%), Saudi Arabia (3.7%), and Nigeria (3%). In contrast, the US is projected at 1% growth, while Russia, Italy, and Germany could suffer degrowth.

Challenges Faced by the Indian Financial System

Although India's financial system has seen great heights and has a relatable stable approach given the current global economic outlook, this is not to say that the banking system in India hasn't faced issues.

Some of the most recent challenges that continue to have a heavy influence on India's financial system include the following:

- The rise of Non-Performing Assets (NPAs), including bad loans or problems in the agricultural and corporate sectors. Currently, the country's NPAs have crossed ₹10 lakh crores, with more than 70% being from the corporate sector.
- The increasing number of frauds, including accounting fraud, demand draft fraud, uninsured deposits, fraudulent loans, and others. The RBI in 2022 reported total fraud cases of around 9103, the biggest being the PNB scam of ₹11,000 crores, Vijay Mallya defaulting lenders for Rs. 9000 crores, and several others that we have witnessed recently.
- Lack of banking for the underserved and rural population, which is approximately 69% of India's total population. Around 1.4 billion Indians do not have access to formal banking, as per the World Bank report.
- Lack of reach in rural areas, where technical enablement and use of financial services remain a

big challenge.

India's Banking System Opportunities

In a statement by Kristalina Georgieva, Managing Director, IMF, to the press, she mentions how "India deserves to be called a bright spot on this otherwise dark horizon because it has been a fast-growing economy, even during these difficult times, but most importantly, this growth is underpinned by structural reforms."

According to IBM's Report titled 'Banking on India,' India's banking systems are experiencing significant disruption and change and have invested majorly to bank on technology transformations.

Some of the important initiatives undertaken by the central government for financial enablement and digitization are proving to have fruitful results. As per the report, the opportunities that India can unlock thanks to these initiatives include:

Financial Inclusion: 300 million individuals opened a bank account for the first time since the government initiative to provide accessible and affordable financial services to the masses, called the Pradhan Mantri Jan Dhan Yojana, in 2014. Since 2011, the unbanked population has been cut down to half. In addition, 55% of Jan Dhan account holders are women, and 67% of the account holders reside in rural and semi-urban areas.

Digital Payments: In 2016, the Government of India launched the UPI (Unified Payment Interface) System and BHIM, along with the National Payments Corporation of India (NPCI). This has improved mobile banking and online payments, creating a digital revolution.

Rise of Neo Banking: In 2021, the Niti Ayog proposed to set up 'digital banks,' which rely on the internet to offer their services instead of physical branches. This will revolutionize how banking as a service is provided to customers and create new opportunities for rural and urban sectors.

The Future of Indian Banking

In the future, India's financial system will witness a greater emphasis on providing improved and personalized services to clients.

This will be coupled with being able to match competitive rates through the introduction of Neo-banks and other digital lending options that are now available to customers.

The future will see robust growth driven by innovation and investment in infrastructure, digital

enablement, and a focus on mobile and internet banking.

As per IBEF, India's fintech market is expected to reach ₹6.2 trillion in 2025. It will witness greater regulatory support, such as the advent of RBI's regulatory sandbox, which will allow fintechs to test out their concepts and innovations before going live.

Further, it will work with 4200+ fintech startups to create a more disruptive, accessible, and innovative future. This can catalyze major initiatives to enable India's financial services offerings to be more robust and fast-paced, including:

The use of blockchain creates a more decentralized and safe process for banking processes. Banking institutions like Axis Bank, Kotak Bank, and Yes Bank have already partnered with blockchain firms to allow customers to get cross-border remittances via Ripple, and there could be more implementations underway.

Use of Artificial Intelligence systems for chatbots, fraud detection, risk management, investment, and other banking processes

Increase in peer-to-peer (P2P) lending, especially given the new regulations capping a potential lender's exposure to ₹10 lakh and limiting it to not more than 36 months. This will make P2P lending safer and less risky while enabling an option for customers with low financial requirements to benefit from these platforms.

Conclusion

To recap all that was discussed in the blog, increasing privatization and digitization are the central themes that will continue to evolve India's financial system in 2022 and beyond.

As we move to a more inclusive, non-traditional, and affordable banking system, focusing on internal controls, credit risk management, managing NPAs, and the adoption of technology will play a vital role in carving the future of growth in our overall financial system.

With positive steps being taken, including the rise of fintech and micro financing options, the inclusion of the unbanked population, and initiatives for digitizing finance, the banking system in India will be the third-largest in the world by 2025, with the chances of becoming a $5 trillion economy by FY 2029.

If you are interested in the financial markets and want to pursue a career in banking and finance, Hero Vired has collaboratively designed an integrated program in Finance & Financial Technologies with the Massachusetts Institute of Technology (MIT).

This program allows learners to understand the field of finance and financial technologies. It offers a well-designed online curriculum that blends theory and practical learning.

The program will cover key trends in finance, insights into the global financial markets and financial systems, their impact on our economy, and emerging financial technologies such as blockchain, cryptocurrencies, and more.

The best part - you get a hands-on learning experience by working on real-world projects with some of the most reputed names and get a certification that converges on traditional financial understanding while staying abreast with the latest developments and technologies in the domain.

4.4 classification of banking industry

Banks are financial institutions that perform deposit and lending functions. There are various types of banks in India and each is responsible to perform different functions.

In terms of the government exam syllabus, a candidate must know the types of banks and the role of each of them in managing the financial system of a country.

The bank takes deposit at a much lower rate from the public called the deposit rate and lends money at a much higher rate called the lending rate.

Banks can be classified into various types. Given below are the bank types in India:-

- **Central Bank**
- **Cooperative Banks**
- **Commercial Banks**
- **Regional Rural Banks (RRB)**
- **Local Area Banks (LAB)**
- **Specialized Banks**
- **Small Finance Banks**
- **Payments Banks**

This is an important topic for the IAS Exam. In this article, aspirants will get information on the banking system in India, its functions, and the type of banks in India.

The types of banks in India, their functions and the list of banks under each section forms a very important part of the banking awareness syllabus which is included in most Government exams.

Functions of Banks

The major functions of banks are almost the same but the set of people each sector or type deals with may differ. Given below the functions of the banks in India:

- Acceptance of deposits from the public
- Provide demand withdrawal facility
- Lending facility
- Transfer of funds
- Issue of drafts
- Provide customers with locker facilities
- Dealing with foreign exchange

Apart from the above-mentioned list, various utility functions also need to be performed by the various banks.

Central Bank

The Reserve Bank of India is the central bank of our country. Each country has a central bank that regulates all the other banks in that particular country.

The main function of the central bank is to act as the Government's Bank and guide and regulate the other banking institutions in the country. Given below are the functions of the central bank of a country:

- **Guiding other banks**
- **Issuing currency**
- **Implementing the monetary policies**
- **Supervisor of the financial system**

In other words, the central bank of the country may also be known as the banker's bank as it provides assistance to the other banks of the country and manages the financial system of the country, under the supervision of the Government.

Cooperative Banks

These banks are organised under the state government's act. They give short term loans to the agriculture sector and other allied activities.

The main goal of Cooperative Banks is to promote social welfare by providing concessional loans

They are organised in the 3 tier structure

- **Tier 1 (State Level)** – State Cooperative Banks (regulated by RBI, State Govt, NABARD)
    - Funded by RBI, government, NABARD. Money is then distributed to the public
    - Concessional CRR, SLR applies to these banks. (CRR- 3%, SLR- 25%)
    - Owned by the state government and top management is elected by members
- **Tier 2 (District Level)** – Central/District Cooperative Banks
- **Tier 3 (Village Level)** – Primary Agriculture Cooperative Banks

Commercial Banks

- Organised under the Banking Companies Act, 1956
- They operate on a commercial basis and its main objective is profit.
- They have a unified structure and are owned by the government, state, or any private entity.
- They tend to all sectors ranging from rural to urban
- These banks do not charge concessional interest rates unless instructed by the RBI
- Public deposits are the main source of funds for these banks

The commercial banks can be further divided into three categories:

1. **Public sector Banks** – A bank where the majority stakes are owned by the Government or the central bank of the country.
2. **Private sector Banks** – A bank where the majority stakes are owned by a private organization or an individual or a group of people

3. **Foreign Banks** – The banks with their headquarters in foreign countries and branches in our country, fall under this type of bank

Given below is the list of commercial banks in our country:

Commercial Banks in India		
Public Sector Banks	**Private Sector Banks**	**Foreign Banks**
State Bank of India Allahabad Bank Andhra Bank Bank of Baroda Bank of India Bank of Maharashtra Canara Bank Central Bank of India Corporation Bank Dena Bank Indian Bank Indian Overseas Bank Oriental Bank of Commerce Punjab National Bank Punjab & Sind Bank Syndicate Bank Union Bank of India United Bank of India UCO Bank Vijaya Bank IDBI Bank Ltd.	Catholic Syrian Bank City Union Bank Dhanlaxmi Bank Federal Bank Jammu and Kashmir Bank Karnataka Bank Karur Vysya Bank Lakshmi Vilas Bank Nainital Bank Ratnakar Bank South Indian Bank Tamilnadu Mercantile Bank Axis Bank Development Credit Bank (DCB Bank Ltd) HDFC Bank ICICI Bank IndusInd Bank Kotak Mahindra Bank Yes Bank IDFC Bandhan Bank of Bandhan Financial Services.	Australia and New Zealand Banking Group Ltd. National Australia Bank Westpac Banking Corporation Bank of Bahrain & Kuwait BSC AB Bank Ltd. HSBC CITI Bank Deutsche Bank DBS Bank Ltd. United Overseas Bank Ltd J.P. Morgan Chase Bank Standard Chartered Bank There are over 40 Foreign Banks in India

Regional Rural Banks (RRB)

- These are special types of commercial Banks that provide concessional credit to agriculture and

rural sector.

- RRBs were established in 1975 and are registered under a Regional Rural Bank Act, 1976.
- RRBs are joint ventures between the Central government (50%), State government (15%), and a Commercial Bank (35%).
- 196 RRBs have been established from 1987 to 2005.
- From 2005 onwards government started merger of RRBs thus reducing the number of RRBs to 82
- One RRB cannot open its branches in more than 3 geographically connected districts.

Local Area Banks (LAB)

- Introduced in India in the year 1996
- These are organized by the private sector
- Earning profit is the main objective of Local Area Banks
- Local Area Banks are registered under Companies Act, 1956
- At present, there are only 4 Local Area Banks all which are located in South India

Specialized Banks

Certain banks are introduced for specific purposes only. Such banks are called specialized banks. These include:

Small Industries Development Bank of India (SIDBI) – Loan for a small scale industry or business can be taken from SIDBI. Financing small industries with modern technology and equipments is done with the help of this bank

- EXIM Bank – EXIM Bank stands for Export and Import Bank. To get loans or other financial assistance with exporting or importing goods by foreign countries can be done through this type of bank
- National Bank for Agricultural & Rural Development (NABARD) – To get any kind of financial assistance for rural, handicraft, village, and agricultural development, people can turn to NABARD.

There are various other specialized banks and each possesses a different role in helping develop the country financially.

Small Finance Banks

As the name suggests, this type of bank looks after the micro industries, small farmers, and the unorganized sector of the society by providing them loans and financial assistance. These banks are governed by the central bank of the country.

Given below is the list of the Small Finance Banks in our country:

AU Small Finance Bank	Equitas Small Finance Bank	Jana Small Finance Bank	Northeast Small Finance Bank
Capital Small Finance Bank	Fincare Small Finance Bank	Suryoday Small Finance Bank	Ujjivan Small Finance Bank
Esaf Small Finance Bank	Utkarsh Small Finance Bank		

Payments Banks

A newly introduced form of banking, the payments bank have been conceptualized by the Reserve Bank of India. People with an account in the payments bank can only deposit an amount of up to Rs.1,00,000/- and cannot apply for loans or credit cards under this account.

Options for online banking, mobile banking, the issue of ATM, and debit card can be done through payments banks. Given below is a list of the few payments bank in our country:

- **Airtel Payments Bank**
- **India Post Payments Bank**
- **Fino Payments Bank**
- **Jio Payments Bank**
- **Paytm Payments Bank**
- **NSDL Payments Bank**

4.5meaning OF MARKETING of banking product

Service marketing

New and innovative methods of marketing services used by banking sector

Introduction

A bank is a financial institution licensed by a government. Its primary activities include borrowing and lending money. Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new market.

-In the 1990s, greater emphasis being placed on technology and innovation.

-New concept like personal banking, retail banking, total branch automation, etc were introduced

Banks' activities can be divided into retail banking, dealing directly with individuals and small businesses; business banking, providing services to mid-market business; corporate banking, directed at large business entities; private banking, providing wealth management services to high net worth individuals and families; and investment banking, relating to activities on the financial markets. Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit organizations.

Banks offer many different channels to access their banking and other services-

1- Bank branch

2- ATM

3- Mail

4- Telephone banking

5- Online banking

6- Mobile banking

7- Video banking

New innovative method of marketing services used by banking sector

1- E-banking-Enables people to carry out most of their banking transaction using a safe website which is operated by their respected bank.

2- **Core banking- i**t include knowing customer needs. Depositing and lending of money. Providing core banking solution.

3- Corporate banking- it includes providing financial solution to large corporate and MNC's.

4- **Mobile banking-** it helps in balance inquiry, fund transfer, cheque book request etc.

5- **Plastic money-P**lastic money are the alternative to the cash or standard money, it is convenient to carry and generic term for all types of bank cards, debit cards, credit cards, smart cards.

6- **NRI banking-**This facility is designed for diverse banking requirements of the vast NRI population spread across the globe.

7- **TOTAL BRANCH AUTOMATION**-this is one of the latest towards paper less transactions, it is more customer friendly and flexible that has speed up bank transaction and with less error possibility.

Marketing mix of banking sector

The marketing mix of banking sector includes 7 p's that are explained below so that they can understand their customers better and provide them good services.

- **Products**

BANKS PRODUCTS:

(A) **DEPOSITS**: Savings, Current, Fixed etc.

(B) **ADVANCES**:a) Term Loan, b) Clean Loan, c) Bills Discounting, d) Advances, e) Pre-shipment Finance, f) Post-shipment finance, g) Secured and Unsecured lines of credit.

(**2) Non-fund oriented**: a) Guarantees, and b) Letter of Credit.

(C) **INTERNATIONAL BANKING:** a) Letter of Credit, and b) Foreign Currency.

(D) **CONSULTANCY**: a) Investment Counseling, b) Project Counseling, c) Merchant Banking, and d) Tax Consultancy.

(E) **MISCELLANEOUS**: a) Traveller Cheques, b) Credit card, c) Remittances, d) Collections, e) Sale of

Drafts, f) Standing instructions, and g) Trusteeship.

- **Price-**

The price mix in the banking sector is nothing but the interest rates charged by the different banks.

Let's understand this with an example. A particular buyer approaches for a car loan say for a period of 3 years. He is charged Rs. 20,000 as interest. however if a sales representative of another bank comes to know of this deal he will try to attract the customer by giving him a better deal that is a loan at a lower rate on interest. In this way due to the high level of competition the customer benefits.

- **Pricing**

This type of pricing is mainly done by banks having unique or different products or schemes. They usually charge a combination of high and low prices depending on the customer loyalty as well as the products. This type of pricing strategy is usually coupled with promotion programs.

-Going rate pricing:

-Mark up pricing:

- **Place**

Place mix is the location analysis for banks branches. There are number a factors affecting the determination of the location of the branch of bank. Like population characteristics, commercial, proximity of other commercial outlets.

- **Promotion**

Promotion is nothing but making the customer more and more aware of the services and benefits provided by the bank.

The banks today can use a lot of new technology to communicate to their customers. Two of the fastest growing modern tools of communicating with the customers are:

1. Internet Banking

2. Mobile Banking

- **Process**

The process mix constitutes the overall procedure involved in using the services offered by the bank. Let's take for example the process for application for a car loan.

Now this mainly involves 3 things.

1. Producing of proper documents

2. Filling up of application form

3. Paying for the initial down payment

- **Physical evidence**

Physical evidence is the overall layout of the place. How the entire bank has been designed. Physical evidence refers to all those factors that helps make the process much easier and smoother. For example in case of a bank the physical evidence would be the placement of the customer service executive's desk, or the location of the place for depositing Cheques. It is very necessary the place is designed in such a manner so as to ensure maximum convenience to the customer and cause no confusion to him

- **Interpretation and recommendation**

Banks are the most significant players in the Indian financial market.

They are the biggest purveyors of credit, and they also attract most of the savings from the population. Dominated by public sector, the banking industry has so far acted as an efficient partner in the growth and the development of the country. Driven by the socialist ideologies and the welfare state concept, public sector banks have long been the supporters of agriculture and other priority sectors. They act as crucial channels of the government in its efforts to ensure equitable economic development. The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institutions.

The Reserve Bank of India acts a centralized body monitoring any discrepancies and shortcoming in the system.

The Indian banking has finally worked up to the competitive dynamics of the _new' Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization.

-Banks that employ IT solutions are perceived to be _futuristic' and proactive players capable of meeting the multifarious requirements of the large customer's base.

-Private Banks have been fast on the uptake and are reorienting their strategies using the internet as a medium The Internet has emerged as the new and challenging frontier of marketing with the conventional physical world tenets being just as applicable like in any other marketing medium.

– Since for Indian banks globalization can be a good opportunity that they can exploit that will lead to increased revenue, size and scale.

Broad Classification of Products Offered by Banks

The different products in a bank can be broadly classified into:

- **Retail Banking.**
- **Trade Finance.**
- **Treasury Operations.**

Retail Banking and Trade finance operations are conducted at the branch level while the wholesale banking operations, which cover treasury operations, are at the head office or a designated branch.

Retail Banking:

- Deposits
- Loans, Cash Credit and Overdraft
- Negotiating for Loans and advances
- Remittances
- Book-Keeping (maintaining all accounting records)
- Receiving all kinds of bonds valuable for safe keeping

Trade Finance:

- Issuing and confirming of letter of credit.
- Drawing, accepting, discounting, buying, selling, collecting of bills of exchange, promissory notes, drafts, bill of lading and other securities.

Treasury Operations:

- Buying and selling of bullion, Foreign exchange.
- Acquiring, holding, underwriting and dealing in shares, debentures, etc.
- Purchasing and selling of bonds and securities on behalf of constituents.

The banks can also act as an agent of the Government or local authority. They insure, guarantee, underwrite, participate in managing and carrying out issue of shares, debentures, etc.

Apart from the above-mentioned functions of the bank, the bank provides a whole lot of other services like investment counseling for individuals, short-term funds management and portfolio management for individuals and companies. It undertakes the inward and outward remittances with reference to foreign exchange and collection of varied types for the Government.

Common Banking Products Available

Some of common available banking products are explained below:

1) **Credit Card**: Credit Card is ―post paid‖ or ―pay later‖ card that draws from a credit line-money made available by the card issuer (bank) and gives one a grace period to pay. If the amount is not paid full by the end of the period, one is charged interest. A credit card is nothing but a very small card containing a means of identification, such as a signature and a small photo. It authorizes the holder to change goods or services to his account, on which he is billed. The bank receives the bills from the merchants and pays on behalf of the card holder. These bills are assembled in the bank and the amount is paid to the bank by the card holder totally or by installments. The bank charges the customer a small amount for these services. The card holder need not have to carry money/cash with him when he travels or goes for purchasing. Credit cards have found wide spread acceptance in the _metros' and big cities. Credit cards are joining popularity for online payments. The major players in the Credit Card market are the foreign banks and some big public sector banks like SBI and Bank of Baroda. India at present has about 10 million credit cards in circulation.

2) Debit Cards: Debit Card is a ―prepaid‖ or ―pay now‖ card with some stored value. Debit Cards quickly debit or subtract money from one's savings account, or if one were taking out cash. Every time a person uses the card, the merchant who in turn can get the money transferred to his account from the bank of the buyers, by debiting an exact amount of purchase from the card. To get a debit card along with a Personal Identification Number (PIN). When he makes a purchase, he enters this number on the shop's

PIN pad. When the card is swiped through the electronic terminal, it dials the acquiring bank system — either Master Card or Visa that validates the PIN and finds out from the issuing bank whether to accept or decline the transaction. The customer never overspread because the amount spent is debited immediately from the customers account. So, for the debit card to work, one must already have the money in the account to cover the transaction. There is no grace period for a debit card purchase. Some debit cards have monthly or per transaction fees. Debit Card holder need not carry a bulky checkbook or large sums of cash when he/she goes at for shopping. This is a fast and easy way of payment one can get debit card facility as debit cards use one's own money at the time of sale, so they are often easier than credit cards to obtain. The major limitation of Debit Card is that currently only some shops in urban areas accepts it. Also, a person can't operate it in case the telephone lines are down.

3) Automated Teller Machine: The introduction of ATM's has given the customers the facility of round the clock banking. The ATM's are used by banks for making the customers dealing easier. ATM card is a device that allows customer who has an ATM card to perform routine banking transaction at any time without interacting with human teller. It provides exchange services. This service helps the customer to withdraw money even when the banks ate closed. This can be done by inserting the card in the ATM and entering the Personal Identification Number and secret Password.

ATM's are currently becoming popular in India that enables the customer to withdraw their money 24 hours a day and 365 days. It provides the customers with the ability to withdraw or deposit funds, check account balances, transfer funds and check statement information. The advantages of ATM's are many. It increases existing business and generates new business. It allows the customers.

- To transfer money to and from accounts.
- To view account information.
- To order cash.
- To receive cash.

Advantages of ATM's:

To the Customers

- ATM's provide 24 hrs., 7 days and 365 days a year service.
- Service is quick and efficient

- Privacy in transaction
- Wider flexibility in place and time of withdrawals.
- The transaction is completely secure — you need to key in Personal Identification Number (Unique number for every customer).

To Banks

- Alternative to extend banking hours.
- Crowding at bank counters considerably reduced.
- Alternative to new branches and to reduce operating expenses.
- Relieves bank employees to focus an more analytical and innovative work.
- Increased market penetration.

ATM's can be installed anywhere like Airports, Railway Stations, Petrol Pumps, Big Business arcades, markets, etc. Hence, it gives easy access to the customers, for obtaining cash.

The ATM services provided first by the foreign banks like Citibank, Grind lays bank and now by many private and public sector banks in India like ICICI Bank, HDFC Bank, SBI, UTI Bank etc. The ICICI has launched ATM Services to its customers in all the Metropolitan Cities in India. By the end of 1990 Indian Private Banks and public sector banks have come up with their own ATM Network in the form of ―SWADHAN‖. Over the past year upto 44 banks in Mumbai, Vashi and Thane, have became a part of ―SWADHAN‖ a system of shared payments networks, introduced by the Indian Bank Association (IBA).

4) E-Cheques: The e-cheques consists five primary facts. They are the consumers, the merchant, consumer's bank the merchant's bank and the e-mint and the clearing process. This cheaqing system uses the network services to issue and process payment that emulates real world chaquing. The payer issue a digital cheaques to the payee ant the entire transactions are done through internet. Electronic version of cheaques are issued, received and processed. A typical electronic cheque transaction takes place in the following manner:

- The customer accesses the merchant server and the merchant server presents its goods to the customer.
- The consumer selects the goods and purchases them by sending an e-cheque to the merchant.

- The merchant validates the e-cheque with its bank for payment authorisation.
- The merchant electronically forwards the e-cheque to its bank.
- The merchant's bank forwards the e-cheque to the clearing house for cashing.
- The clearing house jointly works with the consumer's bank clears the cheque and transfers the money to the merchant's banks.
- The merchant's bank updates the merchant's account.
- The consumer's bank updates the consumer's account with the withdrawal information.

The e-chequing is a great boon to big corporate as well as small retailers. Most major banks accept e-cheques. Thus this system offers secure means of collecting payments, transferring value and managing cash flows.

5) Electronic Funds Transfer (EFT): Many modern banks have computerized their cheque handling process with computer networks and other electronic equipment's. These banks are dispensing with the use of paper cheques. The system called electronic fund transfer (EFT)automatically transfers money from one account to another. This system facilitates speedier transfer of funds electronically from any branch to any other branch. In this system the sender and the receiver of funds may be located in different cities and may even bank with different banks. Funds transfer within the same city is also permitted. The scheme has been in operation since February 7, 1996, in India. The other important type of facility in the EFT system is automated clearing houses. These are the computer centers that handle the bills meant for deposits and the bills meant for payment. In big companies pay is not disbursed by issued cheques or issuing cash. The payment office directs the computer to credit an employee's account with the person's pay.

6) **Telebanking**: Telebanking refers to banking on phone services.. a customer can access information about his/her account through a telephone call and by giving the coded Personal Identification Number (PIN) to the bank. Telebanking is extensively user friendly and effective in nature.

To get a particular work done through the bank, the users may leave his instructions in the form of message with bank.

- Facility to stop payment on request. One can easily know about the cheque status.
- Information on the current interest rates.
- Information with regard to foreign exchange rates.
- Request for a DD or pay order.

- DeMat Account related services.
- And other similar services.

7) **Mobile Banking: A** new revolution in the realm of e-banking is the emergence of mobile banking. On-line banking is now moving to the mobile world, giving everybody with a mobile phone access to real-time banking services, regardless of their location. But there is much more to mobile banking from just on-lie banking. It provides a new way to pick up information and interact with the banks to carry out the relevant banking business. The potential of mobile banking is limitless and is expected to be a big success. Booking and paying for travel and even tickets is also expected to be a growth area. According to this system, customer can access account details on mobile using the Short Messaging System (SMS) technology where select data is pushed to the mobile device. The wireless application protocol (WAP) technology, which will allow user to surf the net on their mobiles to access anything and everything. This is a very flexible way of transacting banking business. Already ICICI and HDFC banks have tied up cellular service provides such as Airtel, Orange, Sky Cell, etc. in Delhi and Mumbai to offer these mobile banking services to their customers.

8) **Internet Banking: I**nternet banking involves use of internet for delivery of banking products and services. With internet banking is now no longer confirmed to the branches where one has to approach the branch in person, to withdraw cash or deposits a cheque or request a statement of accounts. In internet banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time. The Internet Banking now is more of a normal rather than an exception due to the fact that it is the cheapest way of providing banking services. As indicated by McKinsey Quarterly research, presently traditional banking costs the banks, more than a dollar per person, ATM banking costs 27 cents and internet banking costs below 4 cents approximately. ICICI bank was the first one to offer Internet Banking in India.

Benefits of Internet Banking:

- Reduce the transaction costs of offering several banking services and diminishes the need for longer numbers of expensive brick and mortar branches and staff.
- Increase convenience for customers, since they can conduct many banking transaction 24 hours a day.
- Increase customer loyalty.
- Improve customer access.
- Attract new customers.

- Easy online application for all accounts, including personal loans and mortgages

Financial Transaction on the Internet:

- **Electronic Cash:** Companies are developing electronic replicas of all existing payment system: cash, cheque, credit cards and coins.
- **Automatic Payments:** Utility companies, loans payments, and other businesses use on automatic payment system with bills paid through direct withdrawal from a bank account.
- **Direct Deposits:** Earnings (or Government payments) automatically deposited into bank accounts, saving time, effort and money.
- **Stored Value Cards:** Prepaid cards for telephone service, transit fares, highway tolls, laundry service, library fees and school lunches.
- **Point of Sale transactions:**Acceptance of ATM/Cheque at retail stores and restaurants for payment of goods and services. This system has made functioning of the stock Market very smooth and efficient.
- **Cyber Banking:** It refers to banking through online services. Banks with web site ―Cyber‖ branches allowed customers to check balances, pay bills, transfer funds, and apply for loans on the Internet.

9) **Demat**: Demat is short for de-materialization of shares. In short, Demat is a process where at the customer's request the physical stock is converted into electronic entries in the depository system. In January 1998 SEBI (Securities and Exchange Board of India) initiated DEMAT ACCOUNT System to regulate and to improve stock investing. As on date, to trade on shares it has become compulsory to have a share demat account and all trades take place through demat.

How to Operate DEMAT ACCOUNT?

One needs to open a Demat Account with any of the branches of the bank. After opening an account with any bank, by filling the demat request form one can handover the securities. The rest will be taken care by the bank and the customer will receive credit of shares as soon as it is confirmed by the Company/Register and Transfer Agent. There is no physical movement of share certification any more. Any buying or selling of shares is done via electronic transfers.

- If the investor wants to sell his shares, he has to place an order with his broker and give a

  ―Delivery Instruction‖ to his DP (Depository Participant). The DP will debit hi s account with the number of shares sold by him.

- If one wants to buy shares, he has to inform his broker about his Depository Account Number so that the shares bought by him are credited in to his account.
- Payment for the electronic shares bought or sold is to be made in the same way as in the case of physical securities.

4.6 need and marketing approaches to banking

Marketing of Banking Services

Bank marketing is the sum of functions directed at providing services to satisfy customers' financial needs and wants more efficiently and effectively than the competitors in consonance with the organisational objectives.

Application of marketing techniques in banking means a coordinated organizational effort to reach to the customer to fulfil specific needs for getting patronage through use of people, products or services, price, promotion, branch outlets and distribution policies for maximising customer satisfaction.

In a competitive market, banks sell their services through branch counters throughout the entire country through the employees who act as salesmen recruited by the management.

Features of Bank Marketing

- Banking products cannot be seen or felt like manufactured products (intangibility)
- In banking products' marketing/ the product and the seller are inseparable (inseparability)
- Banking products are introduced and delivered at the same time; they cannot be stored and inspected before delivering (perishability)
- Standardisation of banking products is difficult (variability)

NEED FOR BANK MARKETING

Awareness among customers: Modem technology has caused awareness among customers of the developments in the financial system. Financial needs of the customers have grown up to a large extent like quick cash accessibility, money transfer, asset security, increased return on surplus funds, financial advice, deferred payments etc. With a wide network of bank branches, customers expect the banks to offer a more and better service to match their demands and this has forced banks to take up marketing in right earnest.

Quality of service as a key factor

With the economic development, fast change has been seen in every activity, and banking has been no exemption. Service quality is a key aspect in the competitive world, which is market driven and banks have faced this emerging scenario. In fact, it cannot be ignored that quality will in future be the sole determinant of successful banking ventures and marketing has to focus on this most crucial aspect.

Growing Competition

Increased competition is a matter of concern for Indian banking industry and other agencies both, local and foreign, offering value-added services. Competition is no more confined to resource mobilisation but also to lending and other areas of banking activity. The foreign commercial bank with superior technology, speed in operations and imaginative positioning of their services has also provided the necessary reasons to the Indian banks to innovate and compete in the market.

Technological Advances

Technological innovation has resulted in financial product development especially in the international and investment banking areas. The western experience has showed that technology has not only made execution of work faster but has also resulted in greater availability of manpower for customer.

Objectives of Bank Marketing

- The core objectives of bank marketing are:
- Maximising the profitability
- Providing high return on investment to investors
- Developing an image and reputation
- Developing new products to meet the needs of emerging customer requirements

The specific objectives of bank marketing are:

- Increase in deposits
- Increase in loans
- Diversification of products

Directing customers to specific products. The achievement of these objectives requires that the marketing sector should perform the following functions:

- Analysis of customer behaviour, attitudes and market segmentation
- Conducting market research to collect, investigate analyse customers' attitudes and market developments to achieve maximum attainment of objectives
- Designing new products and/or services
- Focusing on Advertising, publicity and promotion
- Keeping check on pricing
- Defining strategies, administering and controlling the marketing programme
- Predicting changing customer profiles and consequent product changes

Bank Marketing in India

- Initially, the marketing concept was introduced in the Indian banking sector in the form of advertising and promotion. The first big step in the direction of bank marketing was initiated by State Bank of India in 1971.
- Group-wise segmentation was launched by SBI to understand the specific needs of groups of customers. The bank recognised itself on the basis of major market segments, dividing the borrowing customers bases on activity and four major market segments, i.e. commercial and institutional, small industries and business, agriculture and personal and services banking segments.
- A few schemes like home loan accounts, education loans, instalment credit etc. were introduced to the traditional services range.
- Foreign banks also adopted different marketing techniques successfully in India in fund mobilisation and promotion of consumer credit.
- Post liberalisation there was remarkable growth in competition in the financial sector, especially in the banking sector.
- The public sector banks along with old private sector banks, new generation banks, and foreign banks revamped marketing strategy.
- Competition leads to quality gap as some competitors, especially foreign banks and new private banks provide quality core and peripheral services using advanced information technologies and

develop

- Aggressive marketing and technological innovation help private banks to make inroads into the bank market.
- In most banks, management personnel had little idea and experience about marketing in a competitive environment. They previously focused mainly on deposit mobilisation and achieving deposit targets.
- The current marketing strategy shifted away from deposits to capturing prime customers wanting credit facilities, raising funds from the market, offering more and more technology oriented products and even recruiting and retaining skilled
- personnel
- The marketing of loans has become a major occupation of management at all levels.

4.7 issue and strategies for ENHANCEMENT of banking services

CHALLENGES or Issues FACED BY BANK IN RETAIL BANKING

Customer churn. Growing competition. Constantly changing regulations. Retail banks face more challenges than most. Here are seven ways to use automation to respond to some of today's biggest retail banking challenges:

Challenge 1: Meeting customer expectations

The level of personalized service your customers expect today is dictated by the other brands they interact with. This includes entertainment brands, fintech, and challenger banks.

Giving customers quality, consistent, and memorable experiences across multiple channels is key to cutting through the noise and wowing customers. How? By implementing low-code automation, you can connect and orchestrate your systems to increase how quickly you can serve your customers. You'll also reduce the number of manual administrative errors, again improving your customers' experiences.

Challenge 2: Outpacing the competition

The retail banking industry has never been so competitive. With banking no longer restricted by geography, your competition can come from anywhere. When online-only banks don't have to cover the overhead of having branches, their budget is freed up to try and tempt your customers into switching.

The solution? Increasing your customers' loyalty by offering a more personalized experience. With automation, you can collect and analyze more customer data than ever before. This helps you better understand your customers, so you can tailor your service and promotions to their specific needs.

Challenge 3: Meeting regulations

A core challenge for retail banks is keeping up with regulations and maintaining compliance. In fact, it remains one of the biggest problems banks are facing today. That's because of the endless updates to existing regulations, as well as the introduction of new ones.

Let automation do the legwork for you. It's easy to maintain compliance when you use low-code technology that proactively assesses and responds to risks. Your systems can even automatically update when new regulations come into effect, giving you the peace of mind that you're always one step ahead.

Challenge 4: Managing risk

Managing compliance and security risks effectively is essential for retail banking organizations to avoid financial and reputational damage.

Low-code automation enables you to connect your systems to ensure compliance and actively detect any fraudulent activity or other security threats.

Challenge 5: Improving employee recruitment and retention

Could automation be the secret to attracting more employees – and keeping the ones you already have?

By using automation to handle some of the more mundane tasks, you'll free up your workforce to focus on more rewarding, interesting, higher-value tasks, which is shown to lead to higher job satisfaction.

Challenge 6: Combatting outdated technology

Legacy systems could be holding you back from growth and being able to serve your customers better. They're costly to maintain and complicated to integrate.

Automation simplifies how you manage multiple software applications and can increase your agility to respond to changing demands. Using low-code process automation helps you link up systems with an agile layer of low-code applications, so you can make the most of existing investments while avoiding cost-heavy, mammoth upgrade initiatives.

Challenge 7: Optimizing costs

Cutting costs while increasing revenue. The ultimate business challenge.

Automation never sleeps. It can increase your efficiency and productivity by streamlining operations and taking care of tasks to free up resources. It can even help you navigate the extra administrative pressures caused by economic disruption in areas like loan origination and credit referrals, without needing to take on additional staff. VKB Bank-made their credit deferrals process 10x faster using automation.

CHALLENGES AND ISSUES FACED BY BANK IN ONLINE BANKING

Online banking has many benefits. Two of the most important are speed and convenience. People who participate in online banking can access their accounts, view their statements, make transactions, pay bills, and much more - from their homes or on the go. It's no surprise then that 76% of UK citizens used online banking in 2020. Despite the benefits, there are also distinct challenges marketers in this sector face. In this blog, we explore the main issues and challenges in the online banking industry.

The challenges are highly significant both for banks that offer online banking, but also for their customers, who depend on the banks to operate effectively. Online banking marketers need to know these challenges so that they can efficiently navigate them. Let's dive in.

1. Shifting banking habits

Online banking usage has seen a surge during the pandemic. UK bank TSB, for example, saw a recorded 137% increase in enrollment for internet banking since March 2020. Due to lockdown restrictions, online banking adoption soared and now up to 80% of people prefer online banking to visiting the bank, and banks all over the world have started closing the doors of their physical branches.

Further to this increase in digital banking usage has been an increase in contactless solutions amidst social distancing practices. Mastercard reported an increase of 40% globally in contactless transactions in 2020. As consumers have made the shift to digital and businesses have started increasing their ecommerce capabilities, the appetite for fully virtual, contactless banking solutions will continue to increase. Further to this, the adoption of wearable payment devices has seen an increase and experts predict the market value of wearable payment tech to grow at a compound annual rate of 29.8% between 2021 and 2028.

With this growing shift in digital banking habits, banks need to keep their product offerings relevant. As they introduce more online banking capabilities, it's up to marketers to ensure that customers are aware of their bank's full product offering, further enhancing the online banking experience for them and exposing them to the numerous benefits that come with doing banking online.

2. Security

Security is one of the most significant challenges for online banking marketers because of the inherent concerns that are traditionally associated with banking online. Although banking systems are designed to be virtually impenetrable, cyberattacks and fraudulent activity are still a reality. But often users don't realize that their online habits may be putting them at risk.

Mobile browsers and apps account for 71% of fraudulent bank transactions. Fraudsters prey on poor privacy habits on the part of the user. Issues like weak passwords and using unsecured networks make people vulnerable to online attacks, like login credential theft and phishing, which could result in fraudulent bank transactions.

Marketing professionals in the online banking sector need to focus on demonstrating and explaining the security of their online bank systems, but also educate customers on how to be more conscientious online by improving their privacy and security habits. Practices like multi-factor authentication and using pass-phrases represent a good starting point.

3. Technical issues

Whenever we use the internet, we risk experiencing technology and service interruptions. System stability and efficiency can affect your ability to access your accounts if your internet is slowed or stopped entirely. Similarly, no matter how sophisticated the tech, bank servers are still prone to both intentional and accidental downtime.

System downtime can be a challenge as not only are users unable to make payments or conduct transactions but concerns about data and fund security also start to emerge. Downtime can cost businesses $1.55 million every year.

Marketers should prioritize alleviating customer worries by explaining that their funds are not at risk if technical issues occur. However, they should also ensure adequate communication of planned system downtime, like scheduled maintenance, so that customers know to expect service interruptions.

4. Lack of personal relationship

Although 73% of people worldwide use online banking at least once a month,more complex customer needs can be difficult to meet through digital banking alone. The benefits of having a personal relationship with your bank are often overlooked, as navigating challenging banking scenarios can often be made easier by the involvement of bankers. Having an in-person banking relationship can help customers compare their options and find solutions tailored to their needs, something which isn't as easily achievable through self-service.

The ideal scenario would be a blend of online banking for day-to-day transactional needs and personal relationships with bank staff to help customers find the right solutions for their overall banking needs. Marketers can strive for this blend by letting their customers know how to access real people, but also by ensuring that their digital banking experience is streamlined and easy to understand. This will help keep customers as informed as possible in both the digital and physical banking environment.

5. The changing banking landscape

The changing banking landscape has seen a rise in digital-only banks and FinTechs offering streamlined banking solutions. Brazilian neobank Nubank, as of June 2021, had an impressive 25 million customers. And in the UK, there is a thriving challenger bank scene. Chime saw an increase of 8 million customers in 2021, bringing its total customer base to 12 million. Whilst here are just a few of the other UK challenger banks (or neobanks) seeing impressive growth:

- **Revolut with 15 million personal users**
- **Monzo with more than 5.6 million personal users**
- **Starling Bank with more than 2 million customers**

Considered nimbler and more transparent than traditional banks, neobanks have fully embraced the power of digital to offer a seamless banking experience with little to no fees. These pose significant competition for traditional banks, as merely having an online banking component is no longer enough. Traditional banks must continue to adopt digital transformation and adapt their services to be as easily available and efficient online as they used to be in-branch.

Banks can look to leverage customer data to provide a personalized banking experience, redefine call centre strategies and up-skill agents to be able to deal with complex customer needs, and identify opportunities for digitisation across the value chain, including process digitisation and intelligent automation.

While banks work on honing their competitive advantage in the changing banking climate, marketers can economies on customer loyalty by reinforcing their banks' wealth of knowledge and well-established presence. Plus, they can continuously emphasize the value they add to customers' banking experiences through user-friendly platforms, increased digital product offerings and transparent and prompt communication - especially as banking behaviors evolve.

Summary: Turning Online Banking Challenges into Opportunities

Online banking is one of the most significant developments in the Finance industry. However, despite the many benefits for customers, we also outlined the key challenges in online banking that marketers face. But we hope we've demonstrated how these challenges can be turned into opportunities to improve processes and customer engagement.

Changing consumer habits and FinTech innovations, as well as security and technical concerns, are all major challenges of online banking that marketers must reconcile to succeed in this field. Demand is high, and digital banking apps and challenger banks will only grow more advanced and successful as they resolve marketing challenges and meet new consumer needs.

Indian Banking Sector Explained: Challenges, Opportunities, and its Future

The Indian banking and financial system have come a long way since its early days. As of 2022, the total assets across all banking sectors (public and private banking) crossed $2.67 trillion.

India has one of the world's largest retail banking and financial services institutions - with 12 public sector banks, 22 private banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks, and 96000+ rural cooperative banks, along with other credit institutions.

This is a long jump from its pre-independence or post-independence phases. Before we got independence, India had just 600 banks, with the Bank of Hindustan founded in 1770 in Calcutta being the very first established bank in the country.

Prominent among these is the Imperial Bank of India, which was formed by merging three existing banks in 1921. The Imperial Bank of India was nationalized in 1955 and became the State Bank of India, which is today the largest public sector bank in India.

Similarly, if we look at the post-independence scenario, the banking system in India focused majorly on providing financial services to the poor and rural populations, which largely depended on local money lenders for financial assistance.

With this aim, the Government of India nationalized the banks under the Banking Regulation Act of 1949, and a total of 14 nationalized banks were present, including the Reserve Bank of India (RBI).

However, the most significant push to India's financial system came in 1991, when the government invited private players to invest in India. This led to the liberalization of the banking system in India and led to the formation of the top private banking institutions like HDFC Bank, Axis Bank, ICICI Bank, DCB, and IndusInd Bank.

Going by this trend, the future of financial services in India is on a solid growth trajectory, with India now surpassing the UK to become the 5th largest economy globally.

Here's a look at the current trends shaping the global financial services industry and the opportunities it presents for the banking system in India.

Banking Since 2020: The Global Outlook and How it is Shaping the Indian Banking Sector

The global economic outlook looks gloomy, as several factors hinting towards a recession-like scenario.

First, the geopolitical events, especially post-COVID-19 and the Russia-Ukraine war, have had a lasting impact, and as per the International Monetary Fund, the global growth projects were downgraded to 3.2% for 2022.

These include the issues due to global oil prices remaining volatile, sanctions imposed on Russia by Western countries, and continuing energy shortages that could lead to high costs.

However, despite the global challenges, India's overall financial system seems to be going steady and doing relatively well.

As a result, the IMF projection for India's economic growth in 2022 is at 6.1%, ahead of China (4.4%), Saudi Arabia (3.7%), and Nigeria (3%). In contrast, the US is projected at 1% growth, while Russia, Italy, and Germany could suffer degrowth.

Challenges Faced by the Indian Financial System

Although India's financial system has seen great heights and has a relatable stable approach given the current global economic outlook, this is not to say that the banking system in India hasn't faced issues.

Some of the most recent challenges that continue to have a heavy influence on India's financial system include the following:

- The rise of Non-Performing Assets (NPAs), including bad loans or problems in the agricultural and corporate sectors. Currently, the country's NPAs have crossed ₹10 lakh crores, with more than 70% being from the corporate sector.
- The increasing number of frauds, including accounting fraud, demand draft fraud, uninsured deposits, fraudulent loans, and others. The RBI in 2022 reported total fraud cases of around

9103, the biggest being the PNB scam of ₹11,000 crores, Vijay Mallya defaulting lenders for Rs. 9000 crores, and several others that we have witnessed recently.

- Lack of banking for the underserved and rural population, which is approximately 69% of India's total population. Around 1.4 billion Indians do not have access to formal banking, as per the World Bank report.
- Lack of reach in rural areas, where technical enablement and use of financial services remain a big challenge.

India's Banking System Opportunities

In a statement by Kristalina Georgieva, Managing Director, IMF, to the press, she mentions how "India deserves to be called a bright spot on this otherwise dark horizon because it has been a fast-growing economy, even during these difficult times, but most importantly, this growth is underpinned by structural reforms."

According to IBM's Report titled 'Banking on India,' India's banking systems are experiencing significant disruption and change and have invested majorly to bank on technology transformations.

Some of the important initiatives undertaken by the central government for financial enablement and digitization are proving to have fruitful results. As per the report, the opportunities that India can unlock thanks to these initiatives include:

- **Financial Inclusion:** 300 million individuals opened a bank account for the first time since the government initiative to provide accessible and affordable financial services to the masses, called the Pradhan Mantri Jan Dhan Yojana, in 2014. Since 2011, the unbanked population has been cut down to half. In addition, 55% of Jan Dhan account holders are women, and 67% of the account holders reside in rural and semi-urban areas.
- **Digital Payments:** In 2016, the Government of India launched the UPI (Unified Payment Interface) System and BHIM, along with the National Payments Corporation of India (NPCI). This has improved mobile banking and online payments, creating a digital revolution.
- **Rise of Neo Banking:** In 2021, the Niti Ayog proposed to set up 'digital banks,' which rely on the internet to offer their services instead of physical branches. This will revolutionize how banking as a service is provided to customers and create new opportunities for rural and urban sectors.

The Future of Indian Banking

In the future, India's financial system will witness a greater emphasis on providing improved and personalized services to clients.

This will be coupled with being able to match competitive rates through the introduction of Neo-banks and other digital lending options that are now available to customers.

The future will see robust growth driven by innovation and investment in infrastructure, digital enablement, and a focus on mobile and internet banking.

As per IBEF, India's fintech market is expected to reach ₹6.2 trillion in 2025. It will witness greater regulatory support, such as the advent of RBI's regulatory sandbox, which will allow fintechs to test out their concepts and innovations before going live.

Further, it will work with 4200+ fintech startups to create a more disruptive, accessible, and innovative future. This can catalyze major initiatives to enable India's financial services offerings to be more robust and fast-paced, including:

The use of blockchain creates a more decentralized and safe process for banking processes. Banking institutions like Axis Bank, Kotak Bank, and Yes Bank have already partnered with blockchain firms to allow customers to get cross-border remittances via Ripple, and there could be more implementations underway.

Use of Artificial Intelligence systems for chatbots, fraud detection, risk management, investment, and other banking processes

Increase in peer-to-peer (P2P) lending, especially given the new regulations capping a potential lender's exposure to ₹10 lakh and limiting it to not more than 36 months. This will make P2P lending safer and less risky while enabling an option for customers with low financial requirements to benefit from these platforms.

Conclusion

To recap all that was discussed in the blog, increasing privatization and digitization are the central themes that will continue to evolve India's financial system in 2022 and beyond.

As we move to a more inclusive, non-traditional, and affordable banking system, focusing on internal controls, credit risk management, managing NPAs, and the adoption of technology will play a vital role in carving the future of growth in our overall financial system.

With positive steps being taken, including the rise of fintech and micro financing options, the inclusion of the unbanked population, and initiatives for digitizing finance, the banking system in India will be the third-largest in the world by 2025, with the chances of becoming a $5 trillion economy by FY 2029.

If you are interested in the financial markets and want to pursue a career in banking and finance, Hero Vired has collaboratively designed an integrated program in Finance & Financial Technologies with the Massachusetts Institute of Technology (MIT).

This program allows learners to understand the field of finance and financial technologies. It offers a well-designed online curriculum that blends theory and practical learning.

The program will cover key trends in finance, insights into the global financial markets and financial systems, their impact on our economy, and emerging financial technologies such as blockchain, cryptocurrencies, and more.

The best part - you get a hands-on learning experience by working on real-world projects with some of the most reputed names and get a certification that converges on traditional financial understanding while staying abreast with the latest developments and technologies in the domain.

3 strategies for driving customer retention in banking

As a consumer banking leader, you care deeply about maximizing the value of each customer interaction from a cost-maintenance perspective. Shiny, new products and clever, digital experiences may initially draw new customers, but how do you keep the customers you already have?

Retention measures customer loyalty over time, a noteworthy metric given the long-held rule of thumb that it costs five times more to acquire new customers than to keep current ones. Whether or not that specific figure holds in practice, the takeaway is clear: continue investing in your new business mechanisms, but make sure to follow up with strategies optimized to transition today's transactions into lifelong customers.

Understand your customers' motivations

When it comes to banking and financial services, PwC's 2022 Customer Loyalty Survey found that 46% of respondents would leave a financial services or banking brand due to a bad product or service experience. And if that isn't alarming enough, 32% of respondents said they would drop a company even after inconsistent-experiences. Providing — and maintaining — top-tier service at every turn starts with understanding who your customers are and what motivates them.

- We can investigate the challenge by looking at two buckets of customers:
- Those who have just become customers and haven't established loyalty
- Existing customers who stay on because they're happy with their experiences and the convenience of your institution

- Both segments play an important role in growing your business.

Newly acquired customers need convincing. They want to know they can trust your team to actively and purposefully help them through life's expected and unexpected events. They are also likely using multiple financial providers to meet their needs — but they may be looking for signs that you can be their one-stop-shop.

Longer-term customers need reassurance. They have chosen loyalty to you, perhaps because you anticipate their needs and support their goals through innovative tools and user experiences. They may even leverage you for multiple financial needs. But resting on your laurels is not an option — the siren call of competitive, modern services threatens this loyalty.

Here are three strategies that can help drive customer retention in banking for both segments:
Strategy #1: Personalize customer experiences

Consider balancing your digital strategy with consistent and integrated touch points, across multiple channels, tailored toward customer retention. Fifty-five percent of respondents to the PwC survey said human interaction is important when it comes to their loyalty to financial services firms.

Here are a few ways to succeed at customer personalization, whether you're interacting with new or longtime patrons:

- Loyalty programs and referral rewards
- Timely discounts and rebates on financial offerings, such as closing costs or home appraisals
- Newsletters and well-timed financial advice tailored to the individual's circumstances
- Actionable resources and educational tools that meet each customer where they are on their financial journey
- Promotions tailored toward a customer's future needs, such as loans for home improvement after they go through the mortgage process
- Handwritten notes at key milestones, such as birthdays, holidays, or post-loan closings
- Delivering personalized value and human connection across all channels of your business can help drive customer retention for the long run.

Strategy #2: Take customer feedback into account

You can tout your top-tier services and technology, but are you actively listening to what your customers are saying? How do they really feel about your products, services, and employee interactions?

Your financial institution can begin by evaluating customer satisfaction through online reviews to gain those valuable insights into your customer preferences and experiences. Unhappy customers will let you know exactly why they dislike your online services or their in-branch experiences. Sending out periodic surveys can also provide feedback and insight into specific product offerings, as well as in-person and on-the-phone customer service.

Listening alone isn't enough, however. You and your team should be willing to use those insights to evaluate and refine your customer retention approaches. For instance, what can you improve about your products or digital platform based on customer feedback? What strengths can you build upon, and which weaknesses do you need to address in your workflows?

Strategy #3: Create seamless user experiences for new and existing customers

How do you set your institution apart in the increasingly crowded financial ecosystem? Simplicity is the name of the game. Whether a new customer opens a checking account at a physical location or an existing one begins the loan process online, you'll want to create seamless experiences at every turn.

Meet today's customer expectations with a technology platform that enables your bank or credit union to deliver experiences that meet your customers' current and future needs.

Begin with a fast and frictionless onboarding process for new customers, and continue with that same level of ease throughout your customer's journey, at every touchpoint. This includes everything from the ease of your mobile app, the stellar customer-service interaction at a teller window, or the well-timed product offerings you send to your existing customers.

Every interaction with prospective, new, and existing customers presents an opportunity to expand and deepen relationships, offering a human touch to financial services.

Taking customer retention in banking a step further

Implementing an intuitive, end-to-end digital platform like Blend can help solidify customer retention by not only supporting seamless omnichannel experiences with personalization at the forefront but also enabling teams to focus on customer relationships at every level.

4.8 modern ways TO MARKET banking services

Modern Bank Marketing

What's not to love about the digital age of bank marketing? Consumers now can access services regardless of how far they are from their local financial institution.

This all sounds super convenient and safe for customers. But it's a whole different story for marketers who are scrambling to keep up with the pace of technology.

Bank marketing today isn't what it used to be just a few years back. A lot is changing. For example, mobile queries for ―bank near me‖ has gone up over 60% in the past two years.

WHAT IS BANK MARKETING

Bank marketing is the practice of attracting and acquiring new customers through traditional media and digital media strategies. The use of these media strategies helps determine what kind of customer is attracted to a certain institutions. This also includes different banking institutions purposefully using different strategies to attract the type of customer they want to do business with.

Digital banking is no longer a strange phenomenon in the developed world. Sticking to old strategies is setting a course to irrelevance.

This means that a change is necessary for financial institutions.

A change that integrates traditional marketing plans with digital strategies that produce measurable results.

WHY BANK MARKETING STRATEGIES NEED TO CHANGE

As a discipline, marketing has evolved over the past few decades to become what it is today. Earlier, marketing strategies were primarily a means of spreading brand awareness.

Today, marketing has been reinvented to fit a much bigger role. Creating both value and revenue to the institution.

It is a big step up from its previous communication role, no doubt. One that was necessitated by the evolution of three factors: the consumer, the technology, and data analytics.

1. The Consumer Has Changed

Advertising is heading the way of the dinosaurs as consumers are beginning to trust objective web content and customer reviews more. The way they learn about financial products has changed. Therefore, so has the way they buy or subscribe to your financial services.

Splurging on advertising is no longer reasonable nor a feasible strategy. Now, all eyes are now focused on digital content.

2. Technology Has Changed

If your institution still perceives marketing as an ―expense‖ rather than an ―investment,‖ chances are you are spending all your energy and resources trying to minimize said expenses while you should be focusing on optimization.

Technology has brought us marketing automation as well as the ability to calculate marketing return on interest (ROI) and track sales. This has made it possible for companies to test marketing campaigns. Then, optimize them for different audiences. And finally, deploy them faster for increased effectiveness.

Technology has made successful marketing all about optimization. Investing in the right technology is the key to unlocking your institution's full marketing potential.

3. Data Analytics is a Game Changer

Today, all the information an institution needs about its prospects can be accessed using the right data stream. We have analytics to thank for this. It is no longer touch and go, but rather a refined science.

You can easily utilize analytics to find prospective customers ready to spend on whatever you're selling. The same way you can exploit it to identify the right digital media to deliver to your targeted audiences for maximum effect.

Analytics have made a lot of the impossible possible by handing marketers the keys to their clients' financial and behavioral data. Thus, providing lots of tangible leads for the sales force to turn into conversions.

THE PROBLEM WITH TRADITIONAL STRATEGIES

It wouldn't be fair to say that traditional strategies have become completely useless. Regardless of technological advancements, billboards, newspaper ads, and business cards will always be there to serve a purpose. Don't expect them to vanish overnight.

That being said, the flaws of traditional strategies can be summed up in three points:

There are no measurable results. Perhaps this is the biggest problem with traditional marketing strategies. Results are not easy to measure, and sometimes they can't be measured at all. There is no way to know what's working and what isn't, because there are no results to go by.

It is quite expensive. Compared to digital marketing, good old traditional advertising will eat through your marketing budget much, much faster.

It is not interactive. This is the reason why traditional marketing simply has no place in today's highly interactive digital marketing landscape. Sure, you can put up a billboard or place an ad on the paper, but it won't do much but just sit there and wait for people to look at it.

Other than that, it serves no other purpose. You can see why digital marketing has the edge now, can't you?

WHY DIGITAL MARKETING IS THE FUTURE

You don't have to look far to see that companies left right and center are paying more attention to digital marketing.

You see, digital bank marketing has a lot of perks despite being cheaper and much more effective than traditional tactics. Here's how your financial institution stands to benefit by switching to a marketing plan that's based on digital channels.

- Digital marketing offers unparalleled reach. Never in the history of marketing has it been this easy to access a global audience. The main problem marketers face is learning how to restrict this flow of information to just their targeted audiences. That's how much power they have at their disposal.
- Digital marketing provides measurable metrics via data analytics. Almost every single aspect of online marketing can be measured. Furthermore, this data can be accumulated, adjusted in real-time, and refined to suit specific demographics. It's no surprise that digital marketing is also known as fast marketing.
- Tracking marketing ROI is no longer an insurmountable challenge. There is more than enough data analytics available. To reiterate, almost every aspect of digital marketing produces measurable results.
- Digital marketing is not expensive. Forget the high costs of advertising through billboards or TV slots or placing ads in the paper. Digital marketing is affordable yet effective.

Additionally, canceling and extending campaigns has never had less red tape. So, your institution has all the flexibility in the world to tailor its digital marketing campaigns as the need arises.

LOCAL BANK MARKETING IS ALSO VERY IMPORTANT

So if digital marketing is all the rave now, does it mean the end for brick-and-mortar institutions? Not according to this study, which found that 64 percent of customers still pay a routine visit to their local bank at least once or twice a month

Why is this still happening even with the numerous digital banking tools at their disposal? Because local bank branches offer two things, no digital marketing strategy can.

1. A Sense of Community

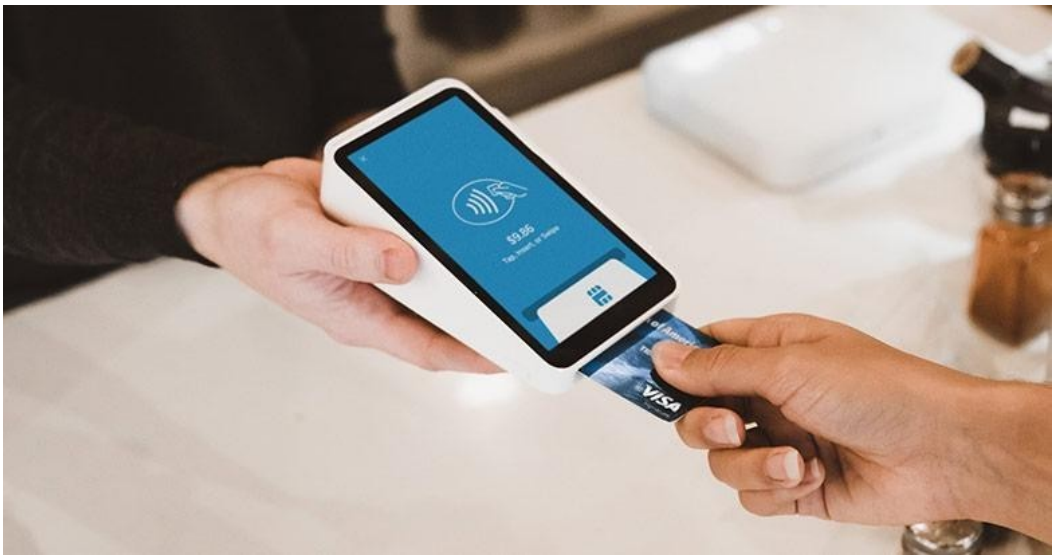
Local banks are the backbone of small economies. They form part of the community your customers live in. Unlike your large multinational financial institution, they are not perceived as cold, impersonal, and business-like. Rather, they are seen as friends and family that help support local businesses.

No mobile banking apps can provide a sense of belonging and community offered at local bank branches.

2. Emotional Connection

Empathy is more important to your clients than you think. They want to feel like their money is being handled by human beings with feelings and emotions. Which is why when in stressful financial situations, they prefer speaking to a person who can understand and assuage their fears.

Body language, facial expressions, friendly familiar faces all contribute to forming an emotional bond. This is extremely important for customers!



What's not to love about the digital age of bank marketing? Consumers now can access services regardless of how far they are from their local financial institution.

This all sounds super convenient and safe for customers. But it's a whole different story for marketers who are scrambling to keep up with the pace of technology.

Bank marketing today isn't what it used to be just a few years back. A lot is changing. For example, mobile queries for ―bank near me‖ has gone up over 60% in the past two years.

WHAT IS BANK MARKETING

Bank marketing is the practice of attracting and acquiring new customers through traditional media and digital media strategies. The use of these media strategies helps determine what kind of customer is attracted to a certain institution. This also includes different banking institutions purposefully using different strategies to attract the type of customer they want to do business with.

Digital banking is no longer a strange phenomenon in the developed world. Sticking to old strategies is setting a course to irrelevance.

This means that a change is necessary for financial institutions.

WHY BANK MARKETING STRATEGIES NEED TO CHANGE

As a discipline, marketing has evolved over the past few decades to become what it is today. Earlier, marketing strategies were primarily a means of spreading brand awareness.

Today, marketing has been reinvented to fit a much bigger role. Creating both value and revenue to the institution.

It is a big step up from its previous communication role, no doubt. One that was necessitated by the evolution of three factors: the consumer, the technology, and data analytics.

1. The Consumer Has Changed

Advertising is heading the way of the dinosaurs as consumers are beginning to trust objective web content and customer reviews more. The way they learn about financial products has changed. Therefore, so has the way they buy or subscribe to your financial services.

Splurging on advertising is no longer reasonable nor a feasible strategy. Now, all eyes are now focused on digital content



2. Technology Has Changed

If your institution still perceives marketing as an ―expense‖ rather than an ―investment,‖ chances are you are spending all your energy and resources trying to minimize said expenses while you should be focusing on optimization.

Technology has brought us marketing automation as well as the ability to calculate marketing return on interest (ROI) and track sales. This has made it possible for companies to test marketing campaigns. Then, optimize them for different audiences. And finally, deploy them faster for increased effectiveness.

Technology has made successful marketing all about optimization. Investing in the right technology is the key to unlocking your institution's full marketing potential.

3. Data Analytics is a Game Changer

Today, all the information an institution needs about its prospects can be accessed using the right data stream. We have analytics to thank for this. It is no longer touch and go, but rather a refined science.

You can easily utilize analytics to find prospective customers ready to spend on whatever you're selling. The same way you can exploit it to identify the right digital media to deliver to your targeted audiences for maximum effect.

Analytics have made a lot of the impossible possible by handing marketers the keys to their clients' financial and behavioral data. Thus, providing lots of tangible leads for the sales force to turn into conversions.

THE PROBLEM WITH TRADITIONAL STRATEGIES

It wouldn't be fair to say that traditional strategies have become completely useless. Regardless of

technological advancements, billboards, newspaper ads, and business cards will always be there to serve a purpose. Don't expect them to vanish overnight.

That being said, the flaws of traditional strategies can be summed up in three points:

- **There are no measurable results.** Perhaps this is the biggest problem with traditional marketing strategies. Results are not easy to measure, and sometimes they can't be measured at all. There is no way to know what's working and what isn't, because there are no results to go by.
- **It is quite expensive.** Compared to digital marketing, good old traditional advertising will eat through your marketing budget much, much faster.
- **It is not interactive.** This is the reason why traditional marketing simply has no place in today's highly interactive digital marketing landscape. Sure, you can put up a billboard or place an ad on the paper, but it won't do much but just sit there and wait for people to look at it.

Other than that, it serves no other purpose. You can see why digital marketing has the edge now, can't you?

WHY DIGITAL MARKETING IS THE FUTURE

You don't have to look far to see that companies left right and center are paying more attention to digital marketing.

You see, digital bank marketing has a lot of perks despite being cheaper and much more effective than traditional tactics. Here's how your financial institution stands to benefit by switching to a marketing plan that's based on digital channels.

Digital marketing offers unparalleled reach. Never in the history of marketing has it been this easy to access a global audience. The main problem marketers face is learning how to restrict this flow of information to just their targeted audiences. That's how much power they have at their disposal.

Digital marketing provides measurable metrics via data analytics. Almost every single aspect of online marketing can be measured. Furthermore, this data can be accumulated, adjusted in real-time, and refined to suit specific demographics. It's no surprise that digital marketing is also known as fast marketing.

Tracking marketing ROI is no longer an insurmountable challenge. There is more than enough data analytics available. To reiterate, almost every aspect of digital marketing produces measurable results.

Digital marketing is not expensive. Forget the high costs of advertising through billboards or TV slots or placing ads in the paper. Digital marketing is affordable yet effective.

Additionally, canceling and extending campaigns has never had less red tape. So, your institution has all



the flexibility in the world to tailor its digital marketing campaigns as the need arises.

LOCAL BANK MARKETING IS ALSO VERY IMPORTANT

So if digital marketing is all the rave now, does it mean the end for brick-and-mortar institutions? Not according to this study, which found that 64 percent of customers still pay a routine visit to their local bank at least once or twice a month

Why is this still happening even with the numerous digital banking tools at their disposal? Because local bank branches offer two things, no digital marketing strategy can.

1. A Sense of Community

Local banks are the backbone of small economies. They form part of the community your customers live in. Unlike your large multinational financial institution, they are not perceived as cold, impersonal, and business-like. Rather, they are seen as friends and family that help support local businesses.

No mobile banking apps can provide a sense of belonging and community offered at local bank branches.

2. Emotional Connection

Empathy is more important to your clients than you think. They want to feel like their money is being handled by human beings with feelings and emotions. Which is why when in stressful financial situations, they prefer speaking to a person who can understand and assuage their fears.

Body language, facial expressions, friendly familiar faces all contribute to forming an emotional bond. This is extremely important for customers!

THE KEY TO AN EFFECTIVE BANK MARKETING STRATEGY

What makes a strategy successful? The answer is simpler than you think.

The key to making your strategy effective is to tailor it to inform and educate your clients. When you train your employees to provide your customers with all the information and education they need, trust begins to form.

Your customers feel more confident approaching you for financial guidance, and they will more likely be inclined to use your financial services as well as recommend them to others. It's simple, but it is also extremely effective.

STRATEGIES THAT WORK

1. Targeting Local Demographics

You've probably heard the advice ―target the right demographic,‖ but what exactly does it mean? The reason why most banking strategies fail is because they're too general.

Forget targeting the baby boomers, or tailoring your services to fit the millennials. Instead, focus on the local population. Are you situated in a school district? Why not offer personalized loans to high school grad students looking to join college?

Is your institution in the suburbs? How about offering loans tailored to help new parents take their children to school? Better yet, why not provide a means for new families to acquire homes in the area with affordable mortgage loans?

It doesn't matter how big or small your institution is, targeting local audiences with financial services tailored to meet their needs is as sound a marketing strategy as any.

2. Integrating Digital Services and Apps

Digital banking is fast, convenient, and easy to use, and if your institution hasn't begun to integrate with apps and other digital services, then you're behind the curve.

An estimated 85 percent of the US population own smartphones. The same percentage of the population is active on social media. Fewer people find it appealing to queue up at banks, so why not help them move into the digital sphere?

Lacking digital banking services is akin to pushing your trusted clientele away. With such a huge part of the population on social media, it shouldn't be hard to get the non-tech-savvy among them onto the digital

bandwagon through the use of social media campaigns and such.

3. Improving Customer Outreach

Customer outreach is a dying courtesy in this increasingly digital world, which is why you should pay more attention to it. The importance of one-on-one connection is not lost on your customers, but don't just reach out without bringing any value to them.

Customer outreach strategies that work include financial literacy workshops, free one-on-one consultations, training customers on how to improve their online banking security, or even teaching them how to make the shift to online banking.

4. Staying Ahead of Technology Trends

This doesn't mean that you should jump on every technology trend that emerges. Not all of them will benefit your institution. However, the importance of adopting new technology cannot be understated.

Automation and AI are two technology trends you should strive to get behind. Automation can be useful in loan and mortgage approval, while AI can help in the creation of interactive online sections, such as FAQs loaded with exhaustive information about the services you offer. Remember that as much as it is important to stay ahead of the curve, it is also crucial to provide a high quality experience.

5. Giving Actual Value to Consumers

Always ensure that what you're offering to your clients has value. If a product or service is no longer relevant, cut it. Streamlining your processes to provide the most value to customers isn't just a great bank marketing strategy, it also helps you to avoid unnecessary costs.

Compare your products to those of your competitors and see which provides customers with more value, then move to optimize them.

An example is the new brand of modular services that allows customers to tailor financial packages according to their needs rather than get stuck with an outdated bank account, loan, or mortgage packages.

6. Adopting Good Digital Marketing Strategies

Digital marketing strategies like SEO Boost your visibility online, while great content helps you build a loyal online customer base. Make use of these tactics when growing the digital side of your financial institution.

7. Making Good Use of Loyalty Programs

Loyalty programs aren't just about dishing out rewards; they are about incentivizing your customers to keep buying your financial products. As such, don't focus too much on credit card points or other common rewards. Get creative with it.

There's a lot of ways to reward your customers for staying loyal. You can reduce (or eliminate) ATM usage fees, offer them discounted loan and mortgage rates, or even increase their savings and checking account interest rates.

8. Prioritizing Customer Experience

Last but certainly not least, make sure you are offering your customers quality experience. Customers are the lifeblood of any business, and in today's fast-paced world, it's all about the quality of the experience.

The key is to consistently offer value in all your services. Don't strive too much to impress with endless promotions and marketing gimmicks. Instead, be their reliable financial advisor, offer them the best interest rates in town, and give them customer service to write home about.

In the end, it is about how you can make the customer feel about your institution. Do you inspire confidence, trust, and encourage a connection? If not, you need to go back to the drawing board.

FINAL WORD ON MODERN STRATEGIES

Bank marketing today heavily relies on digital marketing because that's where everyone is today. The convenience and ease of access to banking apps and services is just too attractive to pass up for most people, and for most people, institutions that lack such rudimentary services are not worth their time.

With the array of tools and data analytics at your disposal, it is not hard to calculate your ROI, find out what works, and what doesn't in order to better customize your strategies.

4.9 introduction to insurance services

Insurance is a legal agreement between two parties – the insurer and the insured, also known as insurance coverage or insurance policy. The insurer provides financial coverage for the losses of the insured that s/he may bear under certain circumstances. Let's discuss in detail what is insurance and how it works, the insurance benefits, and types.

Insurance – Definition and Meaning

Insurance coverage can be defined as a contract in the form of a financial protection policy. This policy covers the monetary risks of an individual due to unpredictable contingencies. The insured is the policyholder whereas the insurer is the insurance-providing company/the insurance carrier/the underwriter. The insurers provide financial coverage or reimbursement in many cases to the policyholder.

The policyholder pays a certain amount called ‗premium' to the insurance company against which the latter provides insurance cover. The insurer assures that it shall cover the policyholder's losses subject to certain terms and conditions. Premium payment decides the assured sum for insurance coverage or ‗policy limit'.

What is Deductible? Why Pay Deductible if Premium is Paid?

Sometimes when you make an insurance claim, the premium amount is less than what it should be. So, in that case, you first have to pay the remaining amount and then claim the insurance money. The extra amount to be paid under such circumstances is called ‗deductible'. You can pay lesser premiums and higher deductibles in an agreement with the insurer.

Features of Insurance Coverage

Insurance coverage has the below mentioned salient features:

- It is a kind of risk management plan to use an insurance policy as a hedge against an uncertain loss
- Insurance coverage does not mitigate the magnitude of loss one may face. It only assures that the loss is shared and distributed among multiple people
- Various clients of an insurance company pool in their risks. Hence, they pay the premiums together. So when one or a few incur a financial loss, the claimed money is given out of this accumulated fund. This makes each client bear a nominal fee
- Insurance coverage can be provided for medical expenses, vehicle damage, property loss/damage, etc. depending on the type of insurance
- Premium, policy limit, and deductible are the main components of an insurance coverage policy. The policy buyer should check them thoroughly while buying an insurance policy

Benefits of Insurance Coverage

An insurance policy performs various functions and comes with multiple benefits. Below are some of its most fundamental advantages, along with some of the secondary and the rest are additional ones. The basic functions of insurance coverage are:

1. Provides Protection

Insurance coverage does reduce the impact of loss that one bears in perilous situations. It provides monetary reimbursement during financial crises. It not only protects the insured from financial woes but also helps in checking mental stress arising out of it.

2. Provides Certainty

Insurance coverage provides a feeling of assurance to the policyholders. The insured pays a small portion of the income for this certainty that will help in the future. So, there is a certainty of handsome financial aid against the premium. It will protect the policy buyer when met with accidents, hazards, or any vulnerabilities.

3. Risk Sharing

The very manner in which insurance policy functions makes it a cooperative scheme. An insurer would be unable to pay from one's capital. An insurance company pools in collective risks and premiums because it covers a large number of risk-exposed people. The payout to the one who claims insurance coverage is out of this fund. Thereby, all policyholders share the risk of the one who actually suffered the loss.

4. Value of Risk

Insurance policy assesses the volume of risk and also anticipates the various causes of it. It evaluates the amount for insurance coverage and the premium payment amounts on a risk value basis. It safeguards against unforeseen events and consequential loss.

Above were the primary benefits of an insurance coverage policy. Apart from the above, it also has some additional benefits and secondary functions that it performs such as the ones mentioned below:

1. Capital Generation

The fund generated from the various premiums acts as a pooled investment for the insurance company. The insurers invest this lump sum into money market instruments. For instance, in stocks, mutual funds, and other productive channels. This helps in generating income and profit for the business. It guards against the loss of capital for the company.

2. Economic Growth

Insurance policies mobilize domestic savings into providing financial stability. It also directs towards loss mitigation due to damage or destruction for the insured community. It not only equivalently spreads the

risks but also promotes trade and commerce by utilizing the fund.

3. Saving Habits

Insurance policies help inculcate saving habits among individuals. They keep a portion of income to pay premiums that will act as a guard for unknown future predicaments. Many insurance plans come as insurance-cum-savings or insurance-cum-investment schemes. This further encourages people to save and invest.

Types of Insurance Coverage

Insurance policies can cover up medical expenses, vehicle damage, loss in business or accidents while traveling, etc. Life Insurance and General Insurance are the two major types of insurance coverage.
General Insurance can further be classified into sub-categories that clubs in various types of policies. These are:

1. Life Insurance

One can avail the life insurance in order to protect the family due to premature death or death during the tenure of the policy. It provides the family with a lump sum when the insured person meets with an untimely death. This helps the grieving family to battle with financial struggles that may occur in absence of a breadwinner.

Is Term Insurance the same as Life Insurance?

Term Insurance is the most common form of life insurance where you pay the premium for the pre-decided term. If you pass away within the term period, the money you are insured of is given to the family. But it remains with the insurance company if you survive through the term policy's tenure. Unlike term plans, whole life insurance or endowment plans pay upon maturity as well if you outlive the term. Some Pension Plans, or post-retirement plans also carry insurance coverage. One is to pay the premium up to a certain time. You receive the promised amount upon maturity. The family gets the money upon the untimely death of the insured.

Hence, Term Insurance is one among many types of Life Insurance plans.

What is Unit Linked Insurance Plan?

Unit Linked Insurance Plan is an investment-cum-insurance plan. The premiums provide coverage as well as they are for the purchase of units of market-linked equity, debt, and other instruments. This has the potential to provide an opportunity for wealth creation apart from the life cover provision.

Life Insurance Coverage Plans also come with tax benefits under Section 80C.

2. General Insurance

Non-life insurance policies count as general insurance policies that include insurance coverages for home, auto, education, etc. as mentioned below:

3. Health Insurance

You can buy health insurance for yourself or for your family that may include your spouse, parents, siblings, and children. Some insurance companies have tie-ups with hospitals. So here you can use your policy number to avail of cashless services in-network hospitals. In other cases, you can claim reimbursement for hospitalization and treatments. Do check the coverage of the type of disease/illness/health issue. Also, verify what type of costs are covered.

4. Education Insurance

Education insurance can also serve as an investment scheme. You pay premiums by the time your child is 18 years of age or attains a certain age as decided by the insurance policy. You can have a lump sum with imposed regulations that you can use for a child's educational purposes and not any other. Use an education calculator to estimate the amount you may need when the child grows up. Such calculators are often provided by insurance companies or insurance offering sites. The parent/ foster parent/legal guardian is the owner of the policy.

5. Home/Property Insurance

If man-made or natural calamities damage your valuable property then this policy can cover the financial loss and provide monetary aid. Losses due to theft, floods, or any other mishaps can be alleviated.

6. Motor/Auto/Vehicle Insurance

This is one of the mandatory policies in current times. First of all, it protects your valuable asset against road accidents or any other damage and covers the losses. Secondly, the traffic rules suggest you carry insurance papers while driving.

7. Travel Insurance

You may have seen that you get an option to buy insurance for minimal costs when booking a rail or air ticket. Alternatively, you can buy travel insurance if you are a frequent flyer and especially if you travel internationally. You can claim for baggage loss, trip cancellation, or delay in flight.

Apart from the types of insurances discussed above, there are miscellaneous insurance coverage policies for furniture, goods, machines, etc. There are other types of insurance such as Fire Insurance (damage due to fire), Marine Insurance (for cargo ships), Tenant Insurance, Landlord's Insurance, and so on. Group Medical Insurance Policies often cover the employees of an organization if the latter has any.

Wrapping it up:

The benefit of having insurance is that it prevents burning a hole into your pocket in unprecedented times. It gives you financial assistance for your losses and damage. The basic function of all types of insurance coverages is to provide damage control to the insured by bringing in a lot of people who pay to cover their risks. The fund is further used for capital formation through investment in the markets. This helps the insurance companies to keep running and settle/adjust the claims of the insured people. It also boosts the economy.

4.10 Life insurance and general insurance in india

Insurance is one of the cornerstones of financial planning. It covers you, your dependents, and your assets against financial losses incurred in case of an unfortunate event. Life insurance and general insurance are two types of insurance coverage that provide financial security and protection in unexpected events. This guide provides a comprehensive overview of both types of insurance, including their differences, and benefits. Also, helps you to choose the best coverage based on your needs.

Why do you need life insurance or general insurance?

Life insurance helps you achieve your financial goals. Suppose you are planning higher studies for your children abroad. In such a scenario, a good life insurance policy will ensure that your children have the financial strength to fulfill their dreams even in your absence. With life insurance, you can also plan for better retirement life, as you can build a corpus by the end of the policy term.

General insurance ensures you have financial preparedness to tackle any emergencies that require monetary support. It keeps you financially covered against any unexpected losses or damages to you, your property or any asset. Health insurance, motor insurance, and home insurance are popularly bought as general insurance in India.

Both life insurance and general insurance are crucial for individuals, families, and businesses to protect their financial well-being.

What is the difference in the claim process of life insurance and general insurance?

There is a significant difference between life insurance and general insurance claim processes. For life insurance, the policy's beneficiary must raise a claim request in case of the insured's death. The beneficiary needs to produce minimal documents like policy documents, death certificate and any other document required by the insurer. In case the policyholder survives through the policy term (whole life cover), then you receive the sum insured upon maturity.

For general insurance, you may need to provide a few documents. For example, for health insurance claims, you must submit the hospital and medicine bills, discharge summary, prescriptions, and other documents as asked by the insurer.

What is general insurance?

General insurance covers non-life assets, such as your home, vehicle, health, and travel. You get compensation for damages or losses incurred due to flood, fire, theft, accidents, or any man-made disasters.

Types of general insurance

Here are different types of general insurance.

- **Health insurance**

Health insurance covers the medical expenses against hospitalization and treatment for the insured. You get coverage for pre-and post-hospitalization, doctor's fees, surgeries, medicines etc. You also get coverage for room rent and ICU charges. You can also include add-ons such as critical illness cover, hospital cash cover, maternity cover, and more.

- **Motor insurance**

Motor insurance covers losses or damage caused to vehicles, including cars, trucks, and motorcycles. There are different types of motor insurance policies. You get motor insurance in comprehensive, third-party, and own damage cover for different types of vehicles. You also get a separate motor insurance policy for commercial vehicles. The insurance policy covers damages caused by accidents, theft, fire, flood, riots etc. According to Motor Vehicles Act, every vehicle owner must have third-party insurance to drive the vehicle legally on roads.

- **Home insurance**

Home insurance covers damages caused to the insured home and the contents in it. There are several types of home insurance policies, including building insurance and contents insurance. Building insurance

covers damages to the structure of the home, while contents insurance covers damages to personal property inside the home. You get coverage for losses or damages caused due to theft, fire, flood, and other natural disasters.

- **Travel insurance**

Travel insurance policies cover unexpected losses or expenses that may occur while traveling. These policies are designed to cover events such as medical emergencies and lost, or stolen luggage. You also get coverage for trip cancellations, or flight cancellations/delays. Travel insurance policies come in different tiers of coverage and can cover a range of travel-related expenses.

What is life insurance?

Life insurance is a type of insurance policy that provides financial security to your loved ones in the event of your death. It guarantees a lump sum payout to the beneficiaries named in the policy. The premiums for the policy depend on various factors such as the policyholder's age, health, and lifestyle. The insured's family members can use the policy amount to cover expenses such as children's higher education fees, or pay off debts, etc.

There are several types of life insurance policies available, each designed to meet different needs. Here are some of the most common types of life insurance policies:

- **Term life insurance**

Term life insurance covers the policyholder till a specified time, typically 10, 20, or 30 years. The beneficiary receives a lump sum payout assured in the policy in case of the policyholder's demise during the term. Term life insurance usually comes at a less expensive premium than other types of life insurance policies because it provides coverage for a limited period.

- **Whole life insurance**

Whole life insurance provides coverage for the lifetime. The policyholder can get a whole life cover for up to 99 years of age. The premiums for whole life insurance policies are usually higher than those for term life insurance policies. In this, the policyholder, if he/she survives the policy term, gets a lump sum amount at maturity. In case of the policyholder's demise, the beneficiary will receive the sum assured on the policy.

- **Unit-linked insurance plans (ULIPs)**

ULIP gives dual benefits of insurance and investment plans. You get a life cover and the opportunity to invest in various funds basis your risk appetite. This type of insurance policy helps you in savings and

growing your wealth. A portion of the premium will go towards insurance coverage, while the remaining goes towards investment.

You can invest in different assets such as equities, debt, and hybrid to generate returns. ULIPs also offer a partial withdrawal facility after the lock-in period (5 years) ends. You also have the flexibility of switching from one fund to another. This facility comes in handy when you are nearing your goal, wherein you can switch from an aggressive fund to a debt fund.

- **Endowment plans**

Like the ULIPs, endowment plans also offer life cover and build a corpus for essential life goals. However, endowment plans give guaranteed returns. A certain portion of the premium goes towards the sum assured, while the other portion is invested in low-risk avenues.

In case of your demise during the policy term, the nominee will get the sum assured. In case you survive the policy term, you get the sum assured as a maturity amount along with the accumulated bonuses. Thus, endowment plans fulfill the dual needs of insurance and investment.

- **Money-back policies**

Money-back policies are like endowment plans, except they pay a certain amount at pre-defined intervals during the policy term. For instance, a money-back policy of 15 years term will pay a certain amount at the end of the policy's 5th and 10th year. On policy maturity, it pays the maturity benefits along with the accumulated bonuses.

Difference between life insurance and general insurance

Here's a quick view at the major differences between life and general insurance:

Parameters	**Life insurance**	**General insurance**
Meaning	Covers life	Covers non-life assets

Contract term	Life cover comes for a long term, up to 99 years of age. Term life comes for a short term like 10, 15, or 20 years.	You get insurance policies for short and long term. You can choose to buy a policy for one year or more.
Claim payment	The nominee receives the sum assured in case of insured's demise, or the insured receives the sum assured at maturity upon survival.	You can avail cashless claim or reimbursement claim facility. In cashless claim, the claim will get settled directly between the network service provider and the insurer. In case of reimbursement, you will receive the amount in your registered bank account.
Savings component	Available	Not available

Following is the list of insurance companies in India which have been approved by the Insurance Regulatory and Development Authority of India (IRDAI) which is a statutory body regulating and

promoting the insurance and reinsurance industries in India.There are three types of Insurance Companies in India which are as given below:

Life insurance companies

As of September 2022, IRDAI has recognized 24 life insurance companies. Following is the list:[1]

List is arranged chronologically based on their recognition by IRDAI

#	Company	Sector	Headquarters	Founded
1	Life Insurance Corporation of India	Govt.	Mumbai	1956
2	HDFC Standard Life Insurance Co. Ltd.	Private	Mumbai	2000
3	Max Life Insurance Co. Ltd.	Private	Delhi	2000
4	ICICI Prudential Life Insurance Co. Ltd.	Private	Mumbai	2000

5	Kotak Mahindra Life Insurance Co. Ltd.	Private	Mumbai	2001

List is arranged chronologically based on their recognition by IRDAI

#	Company	Sector	Headquarters	Founded
6	Aditya Birla Sun Life Insurance Co. Ltd.	Private	Mumbai	2000
7	TATA AIG Life Insurance Co. Ltd.	Private	Mumbai	2001
8	SBI Life Insurance Co. Ltd.	Public	Mumbai	2001
9	Exide Life Insurance Co. Ltd.	Private	Bengaluru	2001
10	Bajaj Allianz Life Insurance Co. Ltd.	Private	Pune	2001

11	PNB MetLife India Insurance Co. Ltd.	Private	Mumbai	2001
12	Reliance Nippon Life Insurance Company	Private	Mumbai	2001
13	Aviva Life Insurance Company India Ltd.	Private	Gurugram	2002
14	Sahara India Life	Private	Lucknow	2004

List is arranged chronologically based on their recognition by IRDAI

#	Company	Sector	Headquarters	Founded
	Insurance Co. Ltd.			
15	Shriram Life Insurance Co. Ltd.	Private	Hyderabad	2005
16	Bharti AXA Life Insurance Co. Ltd.	Private	Mumbai	2008
17	Future Generali India Life Insurance Co.	Private	Mumbai	2007

	Ltd.			
18	Ageas Federal Life Insurance Co. Ltd.	Private	Mumbai	2008
19	Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.	Private	Gurugram	2008
20	Aegon Life Insurance Co. Ltd.	Private	Mumbai	2008
21	Pramerica Life Insurance Co. Ltd.	Private	Mumbai	2008
22	Star Union Dai-Ichi Life Insurance Co.	Private	Mumbai	2008

List is arranged chronologically based on their recognition by IRDAI

#	Company	Sector	Headquarters	Founded
	Ltd.			

23	IndiaFirst Life Insurance Co. Ltd.	Private	Mumbai	2009
24	Edelweiss Tokio Life Insurance Co. Ltd.	Private	Mumbai	2011

As of September 2022, IRDAI has recognized 31 non-life insurance companies.[2][3]

	Company	Sector	Headquarters	Founded
1	Acko General Insurance	Private	Mumbai	2016
2	Aditya Birla Health Insurance	Private	Mumbai	2015
3	Agriculture Insurance Company of India	Govt.	New Delhi	2002
4	Bajaj Allianz General Insurance	Private	Pune	2001
5	Cholamandalam MS General Insurance	Private	Chennai	2001
6	Manipal Cigna Health Insurance Company Limited	Private	Mumbai	2014
7	Navi General Insurance	Private	Bengaluru	2016

	Company	Sector	Headquarters	Founded
	Limited			
8	Digit Insurance	Private	Pune	2017
9	Edelweiss General Insurance	Private	Mumbai	2017
10	Export Credit Guarantee Corporation of India	Govt.	Mumbai	1957
11	Future Generali India Insurance	Private	Mumbai	2007
12	HDFC ERGO General Insurance Company	Private	Mumbai	2002
13	ICICI Lombard	Private	Mumbai	2001
14	IFFCO TOKIO General Insurance	Private	Gurugram	2000
15	Kotak Mahindra General Insurance	Private	Mumbai	2015
16	Liberty General Insurance	Private	Mumbai	2013
17	Magma HDI General Insurance	Private	Mumbai	2009
18	Niva Bupa Health Insurance	Private	New Delhi	2008

19	National Insurance Company	Govt.	Kolkata	1906
20	New India Assurance	Govt.	Mumbai	1919
21	Raheja QBE General	Private	Mumbai	2007

	Company	Sector	Headquarters	Founded
	Insurance			
22	Reliance General Insurance	Private	Mumbai	2000
23	Care Health Insurance Ltd	Private	Gurugram	2012
24	Royal Sundaram General Insurance	Private	Chennai	2000
25	SBI General Insurance	Private	Mumbai	2010
26	Shriram General Insurance	Private	Jaipur	2008
27	Star Health and Allied Insurance	Private	Chennai	2006
28	Tata AIG General Insurance	Private	Mumbai	2001
29	The Oriental Insurance Company	Govt.	New Delhi	1947
30	United India Insurance Company	Govt.	Chennai	1938
31	Universal Sompo General Insurance Company	Private	Mumbai	2007

4.11 insurance companies in india

It’s harder than ever to distinguish your insurance agency from the competition. These marketing tips will make sure that your agency will reach more potential customers and build trust to close the deal

Every business needs great marketing to grow. When your profits depend on a steady flow of new leads, finding effective ways to attract potential customers matters all the more. Luckily, staying on top of insurance marketing trends can help you step up your lead generation game. Be sure to review our Definitive Guide to Selling Insurance.

Whether you run an insurance agency or work on your own, online marketing is the next frontier that you need to explore. Many insurance companies are failing to adapt to the needs of online shoppers, which presents a big opportunity for you to shine.

Agents who make themselves accessible on the web can become the go-to resource for anyone in need of insurance help.

In this , we’ll provide nine effective digital marketing ideas that you can use to stand out in the insurance industry.

What is Insurance Marketing?

Insurance marketing is about identifying and targeting the right customers, then hitting them with clever, hard-to-resist tactics to show them why your insurance company is their best bet. Sure, it might include a nifty website, eye-catching flyers or snappy online ads—but there’s much, much more to it than that. It involves components like building robust networks, forming strategic partnerships, establishing trust with potential clients through quality customer service, and even tapping into the vein of up-to-date tech tools that can help you outperform the competition.

Insurance marketing isn’t a one-size-fits-all solution. Businesses need to continually adapt, improve, and evolve their strategies to cater to the ever-changing market demands and fickle customer preferences.

9 Best Insurance Marketing Strategy Ideas for Business Growth

A big part of being a successful insurance agent is building your network. To sell more policies, you need to continually find people to sell to.

The right insurance agency marketing strategies can help you reach more members of your target audience and re-engage the customers you already have. As you put the following digital marketing

strategies into play, your business will be rewarded with measurable results.

1. Define Your Audience

Getting clear on who you're selling to is the first step to marketing effectively. To start, consider your most loyal customers. Who already does business with you and keeps coming back time and time again? Write down information about them, and include things like:

- Where they live
- How old they are
- What their lifestyle looks like
- Their core beliefs
- Where they spend time (both online and in the real world)
- Their goals and pain points

Once you've compiled this information, you can turn it into a customer persona (a fictional representation of your ideal buyer). Knowing whoyou're selling to will allow you to speak directly to those people in a way that will resonate with them, which will allow you to create campaigns that convert.

2. Referral Program

One of your most powerful insurance marketing tools is your customer base.

Shoppers who are referred by friends are four times more likely to convert, showing just how effective their recommendations are. On the flip side, clients who are loyal to your insurance agency are four times more likely to refer a friend. If you want to maximize the amount of new clients that your business receives, sometimes all you need to do is encourage them to take action with a referral program.

When setting up a referral program, you need to offer your customer base an enticing reward for every shopper they refer to your business who purchases an insurance policy. This reward may be a gift card, cash, a discount, or something similar. You can also offer smaller rewards—like $5 gift cards or free movie tickets—to existing clients who refer shoppers who simply sign up and show up for a consultation.

Don't forget to market your referral program, whether it's in your email newsletter or on social media, to amplify your marketing efforts.

3. Online Reviews

Referral marketing is incredibly effective, but alone, it doesn't guarantee that word will quickly spread about your business. If you want to amplify the positive messages your clients are sharing about you, you need to have an insurance marketing strategy that puts reviews into play.

Each day, testimonials can be read by thousands of consumers—93% of whom are influenced by what your buyers have to say. Reviews have a big impact, so making sure you have a consistent flow of real feedback on Google, Facebook, and industry-specific sites can help you build trust and draw in more new customers.

Tools like Podium Reviews can automate your review invites, so you never miss a potential review opportunity. As your new reviews start rolling in, our tool allows you to respond professionally to each one, all in one central location, in a timely manner.

4. Partnerships

Another way you can get effective referrals is by reaching out to local businesses that aren't direct competitors, but still have an audience you want to reach. For example, you may ask to form a partnership with an accounting firm.

In this partnership, you can both exclusively recommend each other to customers in search of services like yours. You can promote the partnership on your website and social media, and they can do the same.

Partnerships, of course, aren't limited to the digital space. You and your partners can and should promote each other while chatting with clients in-person, so your partnership grows even more beneficial. You can also partner up to host or run a booth at local community events to further drive growth together.

5. LinkedIn Networking

While in-person networking is still an effective way to build relationships, the days of handing out piles of business cards to gain a few leads is behind us. These days, you can easily market yourself as an insurance agent on LinkedIn, reaching people well beyond your direct locale.

Here are a few key tips for networking on the social platform:

- Fully complete your LinkedIn profile (and business page, if you have an agency)
- Write a personalized note to everyone you request to connect with
- Post consistently
- Give value and build relationships through your content by engaging with connections or by

hopping on a call before making a big ask

- Follow up with warm leads who haven't taken any next steps

LinkedIn is a particularly great insurance marketing platform for agents and agencies that specialize in policies for businesses. Nearly 80% of B2B marketers agree that the platform helps generate leads, so it never hurts to reach out.

You can even use LinkedIn to build your business partnerships and further drive referrals, too.

6. Social Media Ads

Social media marketing beyond LinkedIn is a must for pretty much every industry these days. Customers are using social platforms to not only connect, but also to shop and research.

In addition to posting organic content on each platform and engaging with followers, insurance agents can use social media ads to drive brand awareness and gain leads among users who aren't following their page.

While ads are available on every platform, we especially recommend investing in Facebook retargeting ads. These Facebook ads help you draw back consumers who were already interested and browsed your insurance website, but may not have taken the next step to request your services.

7. Landing Pages

Insurance is a complex subject. When consumers need help understanding it, many take to the internet to find the information they need.

Landing pages are pages on your insurance agency website that target specific relevant keywords and are built to convert. The more you have, the better you can reach people in your target market who are actively looking for insurance.

Your landing pages can answer questions about different types of insurance—like auto insurance or life insurance—as well as focus on specific states' policies and insurance providers you partner with. For example, Business Insurance USA has a great landing page that allows visitors to get a business insurance quote based on their industry, insurance type, and insurance limits.

We recommend ending each page with a lead magnet like an instant quote, an insurance calculator, or a PDF that breaks down policy options. This way, potential clients are drawn to submit their phone numbers and emails for your SMS and email marketing.

8. Google PPC Ads

You don’t always have to wait for your landing pages to organically reach customers on Google. You can also use pay-per-click (PPC) ads to push them to the top of relevant search engine results pages (SERPs).

These PPC ads allow you to target specific audiences with your marketing budget. A PPC marketing campaign can multiply your conversions over a short period of time.

When choosing the keywords you want to rank for, don’t just choose the most popular ones. While ―health insurance‖ may have a huge search volume, it can also be extremely expensive to target. Targeting more specific keywords with lower search volumes, like ―health insurance for seniors,‖ can be equally as effective and better for your ROI.

9. Local SEO

Odds are, the insurance policies you sell are specific to a certain state. This means your agency is location-dependent, even if you don’t operate out of a physical office. To best reach the people in the area you’re targeting, you need local search engine optimization (SEO).

Local SEO includes all the methods you use to rank higher on SERPs that have a local intent—for example, when a consumer searches ―insurance agents near me‖ or ―insurance agency NYC.‖ This practice allows you to directly reach the people you serve, helping you reach more relevant audiences and convert faster.

Some specific local SEO tactics that you can put into action include:

- Optimizing your Google Business Profile by completing your address, service area, and more
- Using location-specific keywords throughout your website and content marketing
- Make sure all your business listings on social media, directory sites like Yellow Pages, and more have your accurate contact information

Why Should You Have a Marketing Insurance Strategy?

In the ever-changing landscape of small business, one thing is certain: anything can happen. For small business owners who are always looking for ways to increase stability, reduce risk, and ensure growth, it’s essential to establish a strong marketing plan. Here are five benefits that marketing insurance can bring to your business to help ensure its ongoing success.

- **Increased Sales**

Insurance marketing will help you reach a wider audience so that you can get more leads and clients. By

utilizing targeted marketing efforts, you can tap into a vast pool of potential customers who are looking for the services you offer. Often people often don't realize they need to find trustworthy insurance carriers it's too late. By bringing your services to their attention, you'll generate more insurance leads and clients for your business.

- **Improved Brand Awareness**

You want your business to stand out from the crowd, right? A marketing insurance strategy can help you do just that. By creating engaging content and implementing a targeted advertising campaign, you'll build a strong brand image that resonates with customers. Increased brand awareness means more people will recognize and trust your business, ultimately leading to more sales and referrals.

- **Enhanced Reputation**

Your reputation is one of your most valuable assets. A well-executed insurance marketing strategy can bolster your company's image, showcase your expertise, and position you as an industry leader. By sharing your knowledge and best practices, you'll be seen as a reliable source of information. This credibility builds trust and can attract more business—both from customers and potential partners or investors.

- **Strengthened Customer Relationships**

In the era of online reviews, social media interaction, and constant communication, maintaining strong customer relationships is more critical than ever. Implementing a marketing insurance strategy can help you do just that. By being proactive in your marketing efforts, staying active on social media, and sharing informative content, you're fostering a relationship with your customers that goes beyond a simple transaction. This connection can lead to increased customer loyalty, an essential factor for any business.

- **Expand Your Reach with Podium**

In the insurance industry, every new person you reach counts. Being intentional about your marketing efforts and expanding your online network can directly help you generate more leads and make more sales. With these eight insurance marketing ideas, you can get your brand in front of as many potential clients as possible in an effective way.

4.12 Role of insurance advisor

Insurance is a technical concept which has to be understood completely to understand the benefits that it offers. Moreover, insurance, as a product, is not sold in stores or shops. This is where insurance advisors

come into the picture. Insurance advisors not only explain the complex details of insurance policies, but they also help individuals in buying a suitable plan. Insurance advisors are, in fact, the most important and popular mode of distribution of insurance policies. Let's understand who they are and what role do they play in the insurance sector –

Who are insurance advisors?

Insurance advisors are intermediaries who bridge the gap between insurance companies and policyholders. Insurance advisors represent insurance companies and sell the insurance products offered by such companies to their clients. As such, insurance advisors sell insurance policies and, as a compensation for their services they earn a commission on each policy that they sell.

Role of insurance advisors

Since insurance is a long term product and affects the financial well-being of the family, the role of an insurance advisor is of utmost importance. He needs to be diligent and trustworthy towards his work so that the client can depend on his expertise and advice.

The insurance advisor's role towards his/her clients include the following –

- **Fact-finding**

The first thing which an insurance advisor is required to do before generating a sale is to find out the details of his/her clients. When the advisor knows the personal and financial details of the client, he/she can find out the client's needs and requirements. These needs and requirements would then help the advisor to position the right insurance product. So, fact-finding is the first step of the insurance sales process where the advisor should find out the details of the client.

- **Goal identification**

Once the advisor has the personal and financial details of the client, the next step is to find out the financial goals that the client has. Insurance policies are goal-oriented products. They can be used to fulfill the different financial goals that individuals have. For instance, if an individual wants financial security, term insurance and health insurance plans prove ideal. For child planning needs, child life insurance plans are the most suitable. So, until and unless the advisor finds out what the client exactly wants, the right insurance product cannot be sold.

- **Fulfillment of financial goals**

This step is where the insurance advisor's expertise and knowledge are sought by clients. Once the

financial goals of the individual are identified, the advisor's role is to suggest the right insurance products which would fulfill the identified goals. The clients benefit from insurance only when the right insurance policy is matched with their needs. As the clients benefit from insurance, their trust in insurance advisors also grows.

- **Handling objections**

When the advisor suggests the suitable insurance product the client might not agree with the client's suggestions. There are bound to be objections and queries from the customer's end. It is, therefore, the advisor's role to handle all the customer's objections and answer them to the best of his/her knowledge.

- **Helping the clients buy insurance**

To buy an insurance policy clients are required to fill up a proposal form stating all their relevant details. The details contained in the form then form the basis of the insurance contract. So, it is important that the clients provide all the information correctly. The advisor's role is to oversee whether his clients are providing the correct information. He/she should also help the client fill up the proposal form and explain the relevance of the different parts of the form so that the client knows why the information should be authentic.

- **Maintain contact**

The insurance advisor's role does not end with the sale of an insurance product. The advisor should keep in constant touch with the client even after the policy has been sold. Constant relationship with the client would help the advisor get referrals which would help in boosting the advisor's business. Moreover, through contact, the advisor can help the customer renew his/her insurance policies and therefore maintain a high persistency ratio.

- **Help in claim settlements**

The final role that an advisor has towards his/her client is at the time of claims. Since the advisor is well-versed with the technicalities of insurance and knows the claim process, it is his/her duty to help his/her clients get the settlement of their claims. Insurance advisors can play a key role in the claim settlements of their customers by helping them with the correct process and the documents required. Assistance at the time of claims would increase the customers' trust in advisors and would also help in generating more business. Insurance is not only about selling insurance policies, it also involves building a long term relationship. When the advisor helps the client at the time of claims, the client understands the importance of insurance and realizes how the policy came to his aid. This makes the client more receptive to insurance and he/she also buys more insurance policies thereby increasing the business of the advisor.

An insurance advisor, therefore, plays different roles both for the insurance company and the customers. To be able to do complete justice to their multifaceted roles, insurance advisors should keep the following things in mind –

- They should keep themselves updated of all insurance-related news
- They should have complete knowledge of the insurance products that they are selling
- They should sell insurance plans which fit into the customers' needs and not those which give them the maximum commission
- They should be truthful to their customers
- They should not mislead their customers for their personal gains

Conclusion

Whether as an insurance agent or as a PoSP you would still be an insurance advisor. You would be the one who _advises' individuals to buy the right and the most suitable insurance policy for their needs. So, if you want to be an insurance advisor, remember the different roles which you need to play, both for the insurance company and your client. When you play the above-mentioned roles perfectly, you can earn attractive commissions and grow your insurance business manifold.

4.13 Mutual funds marketing

What Is a Mutual Fund?

A mutual fund is a financial vehicle that pools assets from shareholders to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund—derived by the aggregating performance of the underlying investments.

Most mutual funds are part of larger investment companies such as Fidelity Investments, Vanguard, T. Rowe Price, and Oppenheimer. A mutual fund has a fund manager, sometimes called its investment adviser, who is legally obligated to work in the best interest of mutual fund shareholders.

How Are Mutual Funds Priced?

The value of the mutual fund depends on the performance of the securities in which it invests. When buying a unit or share of a mutual fund, an investor is buying the performance of its portfolio or, more precisely, a part of the portfolio's value. Investing in a share of a mutual fund is different from investing in shares of stock. Unlike stock, mutual fund shares do not give their holders any voting rights. A share of a mutual fund represents investments in many different stocks or other securities

The price of a mutual fund share is referred to as the net asset value (NAV) per share, sometimes expressed as NAVPS. A fund's NAV is derived by dividing the total value of the securities in the portfolio by the total amount of shares outstanding. Outstanding shares are those held by all shareholders, institutional investors, and company officers or insiders.

Mutual fund shares can typically be purchased or redeemed at the fund's current NAV, which doesn't fluctuate during market hours but is settled at the end of each trading day. The price of a mutual fund is also updated when the NAVPS is settled.2

The average mutual fund holds different securities, which means mutual fund shareholders gain diversification. Consider an investor who buys only Google stock and relies on the success of the company's earnings. Because all of their dollars are tied to one company, gains and losses are dependent on the company's success. However, a mutual fund may hold Google in its portfolio where the gains and losses of just one stock are offset by gains and losses of other companies within the fund.

How Are Returns Calculated for Mutual Funds?

When an investor buys Apple stock, they are buying partial ownership or a share of the company. Similarly, a mutual fund investor is buying partial ownership of the mutual fund and its assets.

Investors typically earn a return from a mutual fund in three ways, usually on a quarterly or annual basis:

Income is earned from dividends on stocks and interest on bonds held in the fund's portfolio and pays out nearly all of the income it receives over the year to fund owners in the form of a distribution. Funds often give investors a choice either to receive a check for distributions or to reinvest the earnings to purchase additional shares of the mutual fund.

If the fund sells securities that have increased in price, the fund realizes a capital gain, which most funds

also pass on to investors in a distribution.

When the fund's shares increase in price, you can then sell your mutual fund shares for a profit in the market.3

When researching the returns of a mutual fund, an investor will see "total return," or the change in value, either up or down, of an investment over a specific period. This includes any interest, dividends, or capital gains the fund generated as well as the change in its market value over some time. In most cases, total returns are calculated for one, five, and 10-year periods as well as since the day the fund opened, or the inception date.4

Types of Mutual Funds

There are several types of mutual funds available for investment, though most mutual funds fall into one of four main categories which include stock funds, money market funds, bond funds, and target-date funds.

- **Stock Funds**

As the name implies, this fund invests principally in equity or stocks. Within this group are various subcategories. Some equity funds are named for the size of the companies they invest in small-, mid-, or large-cap. Others are named by their investment approach: aggressive growth, income-oriented, value, and others. Equity funds are also categorized by whether they invest in domestic (U.S.) stocks or foreign equities. To understand the universe of equity funds is to use a style box, an example of which is below.5

Funds can be classified based on the size of the companies, their market caps, and the growth prospects of the invested stocks. The term value fund refers to a style of investing that looks for high-quality, low-growth companies that are out of favour with the market. These companies are characterized by low price-to-earnings (P/E) ratios, low price-to-book (P/B) ratios, and high dividend yields.

Conversely, growth funds, look to companies that have had strong growth in earnings, sales, and cash flows. These companies typically have high P/E ratios and do not pay dividends. A compromise between strict value and growth investment is a "blend," which simply refers to companies that are neither value nor growth stocks and are classified as being somewhere in the middle.

Large-cap companies have high market capitalizations, with values over $10 billion. Market cap is derived by multiplying the share price by the number of shares outstanding. Large-cap stocks are typically

blue-chip firms that are often recognizable by name. Small-cap stocks refer to those stocks with a market cap ranging from $250 million to $2 billion. These smaller companies tend to be newer, riskier investments. Mid-cap stocks fill in the gap between small- and large-cap

A mutual fund may blend its strategy between investment style and company size. For example, a large-cap value fund would look to large-cap companies that are in strong financial shape but have recently seen their share prices fall and would be placed in the upper left quadrant of the style box (large and value). The opposite of this would be a fund that invests in startup technology companies with excellent growth prospects: small-cap growth. Such a mutual fund would reside in the bottom right quadrant (small and growth).

- **Bond Funds**

A mutual fund that generates a minimum return is part of the fixed income category. A fixed-income mutual fund focuses on investments that pay a set rate of return, such as government bonds, corporate bonds, or other debt instruments. The fund portfolio generates interest income, which is passed on to the shareholders.

Sometimes referred to as bond funds, these funds are often actively managed and seek to buy relatively undervalued bonds to sell them at a profit. These mutual funds are likely to pay higher returns and bond funds aren't without risk. For example, a fund specializing in high-yield junk bonds is much riskier than a fund that invests in government securities.

Because there are many different types of bonds, bond funds can vary dramatically depending on where they invest and all bond funds are subject to interest rate risk.

- **Index Funds**

Index Funds invest in stocks that correspond with a major market index such as the S&P 500 or the Dow Jones Industrial Average (DJIA). This strategy requires less research from analysts and advisors, so there are fewer expenses passed on to shareholders and these funds are often designed with cost-sensitive investors in mind.

- **Balanced Funds**

Balanced funds invest in a hybrid of asset classes, whether stocks, bonds, money market instruments, or alternative investments. The objective of this fund, known as an asset allocation fund, is to reduce the risk of exposure across asset classes.

Some funds are defined with a specific allocation strategy that is fixed, so the investor can have a predictable exposure to various asset classes. Other funds follow a strategy for dynamic allocation

percentages to meet various investor objectives. This may include responding to market conditions, business cycle changes, or the changing phases of the investor's own life.

The portfolio manager is commonly given the freedom to switch the ratio of asset classes as needed to maintain the integrity of the fund's stated strategy.

- **Money Market Funds**

The money market consists of safe, risk-free, short-term debt instruments, mostly government Treasury bills. An investor will not earn substantial returns, but the principal is guaranteed. A typical return is a little more than the amount earned in a regular checking or savings account and a little less than the average certificate of deposit (CD).

- **Income Funds**

Income funds are named for their purpose: to provide current income on a steady basis. These funds invest primarily in government and high-quality corporate debt, holding these bonds until maturity to provide interest streams. While fund holdings may appreciate, the primary objective of these funds is to provide steady cash flow to investors. As such, the audience for these funds consists of conservative investors and retirees.

- **International/Global Funds**

An international fund, or foreign fund, invests only in assets located outside an investor's home country. Global funds, however, can invest anywhere around the world. Their volatility often depends on the unique country's economy and political risks. However, these funds can be part of a well-balanced portfolio by increasing diversification, since the returns in foreign countries may be uncorrelated with returns at home.

- **Speciality Funds**

Sector funds are targeted strategy funds aimed at specific sectors of the economy, such as financial, technology, or healthcare. Sector funds can be extremely volatile since the stocks in a given sector tend to be highly correlated with each other.

Regional funds make it easier to focus on a specific geographic area of the world. This can mean focusing on a broader region or an individual country.

Socially responsible funds, or ethical funds, invest only in companies that meet the criteria of certain guidelines or beliefs. For example, some socially responsible funds do not invest in "sin" industries such as tobacco, alcoholic beverages, weapons, or nuclear power. Other funds invest primarily in green

technology, such as solar and wind power or recycling.

- **Exchange Traded Funds (ETFs)**

A twist on the mutual fund is the exchange-traded fund (ETF). They are not considered mutual funds but employ strategies consistent with mutual funds. They are structured as investment trusts that are traded on stock exchanges and have the added benefits of the features of stocks.

ETFs can be bought and sold throughout the trading day. ETFs can also be sold short or purchased on margin. ETFs also typically carry lower fees than the equivalent mutual fund. Many ETFs also benefit from active options markets, where investors can hedge or leverage their positions.

ETFs also enjoy tax advantages from mutual funds. Compared to mutual funds, ETFs tend to be more cost-effective and more liquid.7

- **Mutual Fund Fees**

A mutual fund has annual operating fees or shareholder fees. Annual fund operating fees are an annual percentage of the funds under management, usually ranging from 1–3%, known as the expense ratio. A fund's expense ratio is the summation of the advisory or management fee and its administrative costs.

Shareholder fees are sales charges, commissions, and redemption fees, that are paid directly by investors when purchasing or selling the funds. Sales charges or commissions are known as "the load" of a mutual fund. When a mutual fund has a front-end load, fees are assessed when shares are purchased. For a back-end load, mutual fund fees are assessed when an investor sells their shares.

Sometimes, however, an investment company offers a no-load mutual fund, which doesn't carry any commission or sales charge. These funds are distributed directly by an investment company, rather than through a secondary party. Some funds also charge fees and penalties for early withdrawals or selling the holding before a specific time has elapsed.

Classes of Mutual Fund Shares

Currently, most individual investors purchase mutual funds with A-shares through a broker. This purchase includes a front-end load of up to 5% or more, plus management fees and ongoing fees for distributions, also known as 12b-1 fees. Financial advisors selling these products may encourage clients to buy higher-load offerings to generate commissions. With front-end funds, the investor pays these expenses as they buy into the fund.

To remedy these problems and meet fiduciary-rule standards, investment companies have started

designating new share classes, including "level load" C shares, which generally don't have a front-end load but carry a 12b-1 annual distribution fee of up to 1%.

Funds that charge management and other fees when an investor sells their holdings are classified as Class B shares.8

Pros of Mutual Fund Investing

There are a variety of reasons that mutual funds have been the retail investor's vehicle of choice with an overwhelming majority of money in employer-sponsored retirement plans invested in mutual funds.Diversification

Diversification, or the mixing of investments and assets within a portfolio to reduce risk, is one of the advantages of investing in mutual funds. A diversified portfolio has securities with different capitalizations and industries and bonds with varying maturities and issuers. Buying a mutual fund can achieve diversification cheaper and faster than buying individual securities.

- **Easy Access**

Trading on the major stock exchanges, mutual funds can be bought and sold with relative ease, making them highly liquid investments. Also, when it comes to certain types of assets, like foreign equities or exotic commodities, mutual funds are often the most feasible way—in fact, sometimes the only way—for individual investors to participate.

- **Economies of Scale**

Mutual funds also provide economies of scale by forgoing numerous commission charges needed to create a diversified portfolio. Buying only one security at a time leads to large transaction fees. The smaller denominations of mutual funds allow investors to take advantage of dollar-cost averaging.

Because a mutual fund buys and sells large amounts of securities at a time, its transaction costs are lower than what an individual would pay for securities transactions. A mutual fund can invest in certain assets or take larger positions than a smaller investor could.

- **Professional Management**

A professional investment manager uses careful research and skilful trading. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments. Mutual funds require much lower investment minimums so these funds provide a low-cost way for individual investors to experience and benefit from professional money management.

- **Variety and Freedom of Choice**

Investors have the freedom to research and select from managers with a variety of styles and management goals. A fund manager may focus on value investing, growth investing, developed markets, emerging markets, income, or macroeconomic investing, among many other styles. This variety allows investors to gain exposure to not only stocks and bonds but also commodities, foreign assets, and real estate through specialized mutual funds. Mutual funds provide opportunities for foreign and domestic investment that may not otherwise be directly accessible to ordinary investors.

- **Transparency**

Mutual funds are subject to industry regulation that ensures accountability and fairness to investors.

Pros

Liquidity

Diversification

Minimal investment requirements
Professional management
Variety of offerings

Cons

High fees, commissions, and other expenses
Large cash presence in portfolios
No FDIC coverage

Difficulty in comparing funds Lack
of transparency in holdings **Cons**
of Mutual Fund Investing

Liquidity, diversification, and professional management all make mutual funds attractive options, however, mutual funds have drawbacks too.

- **No Guarantees**

Like many other investments without a guaranteed return, there is always the possibility that the value of your mutual fund will depreciate. Equity mutual funds experience price fluctuations, along with the stocks in the fund's portfolio. The Federal Deposit Insurance Corporation (FDIC) does not guarantee mutual fund investments.9

- **Cash Drag**

Mutual funds require a significant amount of their portfolios to be held in cash to satisfy share redemptions each day. To maintain liquidity and the capacity to accommodate withdrawals, funds typically have to keep a larger portion of their portfolio as cash than a typical investor might. Because cash earns no return, it is often referred to as a "cash drag."

- **High Costs**

Mutual funds provide investors with professional management, but fees reduce the fund's overall payout, and they're assessed to mutual fund investors regardless of the performance of the fund. Since fees vary widely from fund to fund, failing to pay attention to the fees can have negative long-term consequences as actively managed funds incur transaction costs that accumulate over each year.

- **"Diworsification" and Dilution**

"Diworsification"—a play on words—is an investment or portfolio strategy that implies too much complexity can lead to worse results. Many mutual fund investors tend to overcomplicate matters. That is, they acquire too many funds that are highly related and, as a result, lose the benefits of diversification.

Dilution is also the result of a successful fund growing too big. When new money pours into funds that have had strong track records, the manager often has trouble finding suitable investments for all the new capital to be put to good use.

The Securities and Exchange Commission (SEC) requires that funds have at least 80% of assets in the particular type of investment implied in their names. How the remaining assets are invested is up to the fund manager.10 However, the different categories that qualify for the required 80% of the assets may be vague and wide-ranging. A fund can, therefore, manipulate prospective investors via its title. A fund that focuses narrowly on Congolese stocks, for example, could be sold with a far-ranging title like "International High-Tech Fund."

- **End of Day Trading Only**

A mutual fund allows you to request that your shares be converted into cash at any time, however, unlike stock that trades throughout the day, many mutual fund redemptions take place only at the end of each trading day.

- **Taxes**

When a fund manager sells a security, a capital-gains tax is triggered. Taxes can be mitigated by investing in tax-sensitive funds or by holding non-tax-sensitive mutual funds in a tax-deferred account, such as

a 401(k) or IRA

- **Evaluating Funds**

Researching and comparing funds can be difficult. Unlike stocks, mutual funds do not offer investors the opportunity to juxtapose the price to earnings (P/E) ratio, sales growth, earnings per share (EPS), or other important data. A mutual fund's net asset value can offer some basis for comparison, but given the diversity of portfolios, comparing the proverbial apples to apples can be difficult, even among funds with similar names or stated objectives. Only index funds tracking the same markets tend to be genuinely comparable.

Example of a Mutual Fund

One of the most notable mutual funds is Fidelity Investments' Magellan Fund (FMAGX). Established in 1963, the fund had an investment objective of capital appreciation via investment in common stocks.12 The fund's height of success was between 1977 and 1990 when Peter Lynch served as its portfolio manager. Under Lynch's tenure, Magellan's assets under management increased from $18 million to $14 billion.13

Fidelity's performance continued strong, and assets under management (AUM) grew to nearly $110 billion in 2000. By 1997, the fund had become so large that Fidelity closed it to new investors and would not reopen it until 2008.14

As of March 2022, Fidelity Magellan has nearly $28 billion in assets and has been managed by Sammy Simnegar since Feb. 2019.12 The fund's performance has tracked or slightly surpassed that of the S&P 500.

4.14 Scope of mutual fund marketing

A mutual fund is a type of investment vehicle that pools money from multiple investors to purchase a diversified portfolio of securities such as stocks, bonds, and cash. The fund is managed by a professional fund manager who makes investment decisions on behalf of the investors. The value of the fund's holdings is divided into shares, and investors can purchase those shares to become a part of the fund.

Scope

The scope of mutual funds encompasses a wide range of investment options and strategies that can be used for asset allocation, risk management, long-term growth, and professional management. Mutual

funds provide investors with access to a diverse range of investments, such as stocks, bonds, and cash, allowing them to diversify their portfolios and reduce risk. They offer liquidity, tax-efficiency, and low minimum investment options, making them accessible to investors of all levels. Additionally, mutual funds are cost-efficient, providing investors with access to a diverse range of investments at a lower cost than they would have to pay to purchase the securities individually.

How mutual funds treated in income tax

The treatment of mutual fund investments for income tax purposes depends on the type of mutual fund and the holding period of the investment.

- **Equity-oriented mutual funds**
- **Debt-oriented mutual funds**
- **Tax-saving mutual** funds (ELSS)

4.15 Elements of mutual fund marketing

Making money these days has become way too easier with the introduction of mutual funds. It makes it easier for individual investors to satisfy their investment needs. Money from various investors is collected and invested into different securities by the shareholders. Mutual funds are designed in order to meet the needs of target customers. Marketing involves sellers, buyers and a product to sell. Mutual fund too is a product; every wondered what goes into its marketing? The marketing of mutual funds consists of the following elements

- **Product design:** Designing a scheme involves all those steps that are required to product in a manufacturing scheme. The task of designing the schemes of mutual funds is performed by the Asset Management Company (AMC). A team consisting of fund managers and researchers is formed by the AMC. The researchers carry out survey studies in the financial market to find out the expectation of the investors. Based on this collected data, a mutual fund product is developed, containing basic features by the fund manager. Some additional small features are added to the scheme to attract investors. The scheme, before getting marketed has to be accepted by the trustees. The Asset Management Company is required to provide all necessary information to the investors in the specific form prescribed by the SEBI.
- **Product Promotion**: Publicity of the scheme is also carried out by the AMC. Unless approved by the trustees, no scheme can be launched. Also, a copy of the offer document, the form prescribed by SEBI, has to be filed along with a fess of 25,000 with the board. The document

must contain sufficient information that would affect the investor's decision including the disclosure on maximum investments proposed to be made by the scheme in the listed securities of the group companies of the sponsor.

- **Product Pricing**: Regulation 49 of Mutual Funds Regulations provides parameters for determining the sale price and repurchase price of mutual funds applicable for investors. Earlier, mutual funds used two different ways to calculate the sale and repurchase price. There was a slight variation found in the amount payable to the investors due to the different practices followed. Now there is a uniform method used by all mutual funds to calculate the same.
- **Product Distribution:**Decision relating to distribution depends on the agents appointed at the branch levels. Agents/distributors carry out a definite function in the entire marketing set-up of mutual funds. It is they who make the target customers aware about the features of mutual funds products in detail. They are provided training before being appointed and are also entitled to a certain amount of commission related to the amount of products sold by them.

4.16 Housing finance

Housing Finance

The purpose of financial resources is to mobilise savings. In most cases, these savings are generated by households and are utilised by the business sector. However, in some cases, savings generated by the household sector are required by other participants of the household sector. The biggest example of this is the housing sector. In most countries of the world, there is a dire shortage of housing. As a result, the prices of housing are skyrocketing in urban sectors. This means that there are very few people in the world who can afford to pay the cost of a home upfront. As a result, there is a great demand for housing finance since people want to borrow money upfront and pay back in installments later.

The Need for Housing Finance

There is already a huge shortage of housing units all over the world. According to a United Nations report, more than 66% of the population of the world stays in urban centres. This is a problem since it creates a shortage of houses in these centres and leads to skyrocketing prices. According to the same report, the number of people in urban centres will double over the next twenty years. Hence, if more housing is not created immediately, there will be a severe impact on the economy as a whole.

In most countries of the world, the housing problem is not evenly spread out. There are four of five urban centres in every country that account for close to 50% of the urban finance provided there. As a result,

there is no development of real estate in rural areas. In many parts of the world, slum pockets have come up. This has created an unhygienic and unsafe living environment in these big cities. There is an urgent need to provide finance and enable these slum dwellers to move to better housing units where they are safe from diseases, crime as well as other social evils.

Why are Housing Finance Companies Necessary?

The problem of lack of housing finance is evident in most parts of the world. However, still, banks do not prefer to lend to individual homebuyers. Commercial banks generally like to do business with industrialists. This is because the loan ticket size is huge, and the transaction size of these loans is large. Hence, there are economies of scale due to lower transaction costs.

In contrast, if banks provide housing finance, they have to find several individuals who want smaller loans, they will have to incur higher transaction costs. Also, housing loans are typically long term in duration. This means that the bank's money is tied up in long term assets. Banks do not want this as they do not have the expertise to correctly gauge the changing valuation of the homes as well as their risk exposure.

However, one of the biggest reasons why housing finance companies exist is the fact that governments all over the world give them tax advantages. Affordable housing is an election issue in many parts of the world. As a result, governments and political parties have created housing finance companies to implement their vision and create affordable housing for the masses.

Activities Performed by Housing Finance Companies

Housing finance companies are an important component of the financial system since they undertake many important activities. Some of these activities have been listed below:

- Housing finance companies enable the distribution of government benefits. If governments want to provide subsidised housing loans to a certain section of the population, then this is done via housing finance companies. It is these companies which act as the distributors of the national government
- Housing finance companies are instrumental in providing finance to housing boards which are engaged in the process of building satellite towns near important urban areas. By building satellite towns, these organizations help to decongest urban areas and provide better housing facilities at affordable prices.
- Housing finance companies also provide other facilities, such as lease rental discounting. This helps real estate investors to liquidate their money without selling their property. Instead of

selling their property, investors can give it on a long term lease. They can then discount the lease proceeds and get the present value right now.

- Housing finance companies are known to provide finance to people who cannot meet the stringent requirements of commercial banks. For instance, in many cases, prospective buyers do not have the money to make a downpayment on their housing loans. In such cases, the housing finance companies provide loans with less downpayment. In order to cover their risks, they make buyers purchase additional insurance.

Hence, to sum it up, housing finance companies are found in several parts of the world. Since the field of housing finance is so large, these companies only focus on housing needs. Also, governments want the housing sector to be booming since it creates employment in other sectors as well.

4.17 Issues and policy prospects

Housing Finance is a broad topic, the idea of which can differ across continents, regions & countries, mainly in terms of the areas it covers. For instance, what is understood by the term housing finance in a developed country may be very different from what is understood by the term in a developing country. Housing finance brings together complex & multi-sector issues that are driven by constantly changing local features, such as a country's legal environment or culture, economic makeup, regulatory environment, our political system. The drive of a housing finance system is to offer the funds which home-based purchasers require to acquire their homes. This is a simple objective, & the number of ways in which it can be achieved is limited. However, this basic ease, in a number of countries, mainly as a result of government action, very complex housing finance systems have been developed. However, the vital feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain.

The Housing Finance Company is an additional form of Non-Banking Financial Company (NBFC) which is involved in the principal business of financing of acquisition or construction of houses that comprises the development of plots of lands for the construction of new houses.

General Problems Of Housing Finance Sector In India

Housing finance is relatively a new idea in the finance sector of India. It is developed rapidly during the last two decades due to the enthusiastic interest of the Government of India to cut-short the housing problem of the country. Some of the general problems of Housing Finance Sector are as under:

- **Government Policies for Housing Finance Sector**

In the present circumstance, the Government of India is trying to play the role of facilitator by offering a number of housing schemes for different sections of the society, but due to poor administrative control & lack of strong will-power most of the schemes are squeezed only up to the primary levels & are never attained its ultimate objectives.

- **Role Of Housing Finance Regulatory Authority**

The word Regulation refers to the specific constraints in the natural growth of a sector & the Regulatory Body is considered as a group of people who always indulge in search of the ways which could create checks & balances to hinder the unplanned & improper growth of the related area.

- **Development of Fundamental Infrastructure for Housing & Technological Innovations**

Housing is primarily an urban phenomenon. It needs some basic infrastructural facilities like roads development, electricity & water supply, proper drainage system, etc. to grow. Most of these facilities depend upon Government efforts & interest. However, the technical inventions in the part of housing construction also support & promote the housing market in the country through the cut down the cost of construction up to a reasonable level.

Both of these factors affect the housing finance market of the country directly. It is a noble symbol that the Central & the State Governments of India are concerned enough about housing schemes frequently. But due to the unstable political environment, like the other areas, most of the housing schemes are limited up to paperwork or within its primary stage. The elementary infra-structural amenities for housing development are not available in most of the areas of the country. Thus the constant efforts are done from the side of Indian Government but these are not enough to give a boost to the housing industry. The higher income group of society is depending on the private Company for infra-structural development of residential areas by paying more amounts. What about the middle or lower income group? They are obligatory to live in non-authorised & non-developed zones where housing finance facilities are generally not provided by housing finance companies.

Distribution of National Capital among Population

The distribution of national capital among the population of the country affects the housing finance sector directly. If the capital of the nation is distributed among the population in a rational manner, the most of the population of the country will be in a position to dream for their own houses & the chances of growth of the housing finance sector of the country will remain higher.

- **Non-Availability of Funds**

Financing in any area depends on the availability of funds for the purpose. Housing finance is a long-term investment, which requires plenty of funds. One of the main problems of the housing finance sector of India is non-availability of long-term capital for investment. Conventionally, the funds for the housing sector have originated from the individuals themselves by way of their own savings or from the financial institutions that are primarily engaged in the intermediation process of channelizing funds from the savers to the borrowers. But, the funds so organized through the formal sector financial institutions remain much lower than what is required to tackle the problems of housing finance in India

- **Higher Cost of Acquisition of Land**

It needs not to be mentioned that in the present time the supply of l& is perfectly inelastic for a country. The availability of l& in adequate quantity at the right place & at an affordable price by the individual is more important for the housing finance sector. The inelastic supply of suitable l& results in a spurious increase in the cost of real estate. Besides, the very high stamp duty payable at the time of purchase of property also causes an increase in the cost of l& significantly. It gets priced out many potential housing finance customers in owning a house.

- **Static Culture of the Society**

Among Indian society, housing is a lifetime dream of an individual & a newly employed person cannot even imagine for his own house due to his social & cultural backgrounds. Although this attitude of society is changing from the last decade due to the development of nuclear families tax rebate on housing loans. Secondly, the debt is considered as an evil in Indian society & the concept of _Deficit Financing' is not appreciated by the masses. This type of thinking discourages a person to avail the facility of housing finance & ultimately hurts the housing finance market of the country remarkably. Although this concept is now changing, which is evident from the fact that the average age of borrower is around 40 years. The joint family culture of Indian society also legs the housing finance market to some extent.

Housing Finance Sector A Step In Varying The Needs Of The Customer

40 years ago, the average first-time homebuyer in India was in his late 50's. This is because, as part of retirement planning, the person was using his savings & provident fund money to buy a house. It was considered to be an integral part of _after retirement' planning. More recently, things have changed & today, the average home buyer is in his 30's, with a significant proportion in mid-to-late '20s. What are the reasons & implications of this dramatic demographic shift?

This shift can be largely attributed to higher disposable incomes, easy access to finance, higher returns

from real estate investments & indeed a change in the consumer mindset. With rapid globalization & a boom in the services sector, salaries in cities have risen, resulting in higher disposable incomes. The cultural shift from joint families to nuclear families in cities has also contributed to the demand for more houses. Working couples today, place a much higher aspirational value on owning a well built, safe & comfortable house. Sensing an opportunity, the banks & financial service companies stepped in, offering home finance at more affordable rates. As the returns from investment in a residential property started yielding good returns, it made a lot of sense to invest early in buying a home. Moreover, by financing a house at an early age, the consumer was able to have longer repayment tenure – leading to lower monthly repayments or the ability to borrow more.

What does the change mean for the housing finance industry? With the average age of home buyer coming down, there has also been a natural shift in the way people buy homes & more importantly, the way people approach housing finance. The total housing credit outstanding in India crossed INR 11.9 trillion, clocking an annualized 18% growth in the first 9 months of FY2016. There has been a renewed emphasis on housing loans by the banks, which control 63% of the overall housing finance market as a number of new (Non-Banking Finance Companies) NBFCs & (Housing Finance Companies) HFCs have entered the market. In a more competitive environment, the service providers are trying to impress the young, tech-savvy consumer.

India had 1 billion mobile subscriptions in 2015, set to reach 1.4 billion by 2021. Mobile traffic is expected to grow annually at 55% & in 2021, 99% of the region's mobile traffic will be from data.
Interestingly, 77% of smartphone users, aged 15-24 years, access internet on mobile every day & 30% of the smartphone users access their banking websites via their smartphones. India has the youngest population of mobile banking users across the globe at a median age of 30 & Indian customers demonstrate the highest likelihood of changing banks driven by the availability of better mobile banking services. This generation is clearly used to accessing information at their fingertips, anytime, anywhere; in the most convenient way. Obviously, this has insightful implications for home finance & it is evident that the traditional way of physically visiting a bank or an NBFC is fast changing.

Today's digital natives expect banks & financial institutions to offer personalised products, fast & user-friendly loan services, delivered in an experience similar to that offered in industries such as travel, hotel, retail & entertainment. & they expect them to be digital, they don't expect to fill in lots of complex paper-based forms. Housing finance companies need to change their strategy, enhance their product offerings, streamline processes & deliver an end-to-end customer experience. The trend now is to move away from lengthy, paper-based application forms to web/mobile-based forms & digitized Know Your Customer (KYC) documents. With speed & trust on top of customers' agendas, financial institutions need to use capabilities such as workflow-based automated processing, comprehensive credit scorecards

(incorporating non-traditional data sources), analytics-based decision making & self-servicing for the effective partnership. There is a need to leverage the vast data available for digital customers to serve them better. The potential of housing finance now extends well beyond the tier 1 cities in India, which means that scalability, agility & digital connectivity are key business needs. As competition rises & margins decline, it is crucial that infrastructure & operational costs are kept to an absolute minimum. Adopting a cloud approach may well be the best way to cater to these requirements. It has now become critical for banks & NBFCs in housing finance to adapt to changing customer behaviors & expectations. There are many examples globally where organizations have transformed successfully to be future-ready.

Technology can be an enabler but a successful transformation requires a change in an end to end business processes & more importantly a forward-looking customer-centric mindset. Housing finance is rapidly changing & it is imperative that service providers keep pace if they do not want to be left out.

The Union Budget for the Financial Year 2018 kept its emphasis on the agenda _Housing for All' by the year 2022 with 39 % higher allocations via Financial Year 2017 under the Pradhan Mantri Awas Yojana (PMAY). While growth in the prime home loan segment could witness moderation, affordable housing segment is likely to grow at a faster pace than industry with efforts being made to report the

supply, demand & affordability issues, said by the group head of financial sector ratings ICRA. However,

stated that post-demonetisation, the delinquencies in the affordable housing and self-employed segments may increase as borrowers' rely on cash transactions & said that the gross NPAs for HFCs is likely to remain range-bound between 0.9 percent and 1.3 percent over the medium term.

4.18 Private sector initiatives

What Is a Private Finance Initiative (PFI)?

A private finance initiative (PFI) is a way of financing public-sector projects through the private sector. PFIs alleviate the government and taxpayers of the immediate burden of coming up with the capital for these projects.

Under a private finance initiative, a private company handles the up-front costs instead of the government. In return, the government authority makes payments to the private company over the long term.

The term ―private finance initiative‖ is used primarily in the United Kingdom and Australia. In the United States, PFIs are typically called public-private partnerships (PPPs)

How Private Finance Initiatives (PFIs) Work

Private finance initiatives are used to fund major public works. Many are infrastructure projects that benefit the public sector. These include highways and roadways, and transport projects such as railroads, airports, bridges, and tunnels. Private-sector firms may also be contracted to construct water and wastewater facilities, prisons, public schools, arenas, and sports facilities.

Instead of funding these projects up front from taxpayers, private firms are hired to finance, manage, and complete the projects. The private firms typically make their money back through long-term repayments from the government or revenue generated from the project—for example, highway tolls. Under this arrangement, the government does not have to lay out a large sum of money at once to fund a major project.3

Depending on the type of project, PFI contracts typically last 20 to 30 years. They can run longer or shorter depending on the project.

Real-World Example of a Private Finance Initiative

In 2020, the U.S. government engaged in public-private partnerships in response to the COVID-19 pandemic. It partnered with private vaccine developers such as Pfizer, BioNTech, and Moderna. The end result was launching effective vaccines in less than a year.4

Public-private partnerships were also responsible for innovations in COVID-19 testing, treatment options, and vaccine distribution throughout the country.5

Advantages of Private Finance Initiatives

Governments have traditionally had to raise money on their own to fund public infrastructure projects. If they aren't able to find the money, governments may also borrow from the bond market, then hire and pay contractors to complete the job. This can often be very cumbersome, which is where the PFI comes in.

PFIs are intended to improve on-time project completion and transfer some of the risks associated with constructing and maintaining these projects from the public sector to the private sector.

PFIs also improve the relationship between the public and private sectors, while providing both with long-term advantages. Through this relationship, both sectors can share knowledge and resources.

Disadvantages of Private Finance Initiatives

A key drawback of private finance initiatives is that since the repayment terms typically include payments

plus interest, the burden may end up being transferred to future taxpayers. In addition, the arrangements sometimes include not only construction but also ongoing maintenance once the projects are complete, which further increases a project's future cost and tax burden.6

There is also a risk that private-sector firms may not comply with relevant safety or quality standards when managing a project.

In addition, terminating a PFI contract before it ends can be highly complex, as most projects are not able to secure private financing without assurances that the financing of the project will be repaid in the case of termination. In most termination cases, the public sector is required to repay the debt and take ownership of the project. In practice, termination is considered only as a last resort.

Criticism of PFIs in the U.K.

Private finance initiatives were first implemented in the United Kingdom in 1992 and became more popular after 1997. In the 2000s, controversy surrounding PFIs revealed that the government was spending significantly more on these projects than they were worth to the benefit of the private firms running them and to the taxpayers' detriment. In addition, PFIs have been criticised by some as an accounting gimmick to reduce the appearance of public-sector borrowing.89

What are examples of private finance initiative (PFI) projects?

Private finance initiatives (PFIs) typically include major government projects such as highways, public transport, airports, bridges, and tunnels. Other examples of private finance initiatives include hospitals, arenas, prisons, and public schools.

What are the benefits of private finance initiatives?

One of the main benefits of private finance initiatives is alleviating the immediate financial burden on a government and taxpayers to finance major public-sector projects. PFIs can also transfer some of the risks associated with a project from the public sector to the private sector.

How long do private finance initiative projects last?

Private finance initiative projects usually take decades to complete. Contracts typically last 20 to 30 years.

The Bottom Line

Private finance initiatives (PFIs) allow governments and the private sector to join forces to finance and implement projects that benefit the public sector. While PFIs have some potential downsides,

governments around the world have used them for decades to finance a wide variety of projects, ranging from highways to hospitals. Referred to as public-private partnerships (PPPs) in the United States, such partnerships were instrumental in developing COVID-19 vaccines.

4.19 Unit End Questions

A. Descriptive Questions

Short Questions:

1. Define mutual funds?
2. Explain what is life insurance?
3. Describe briefly about difference between life and general insurance?
4. What do you understand by Housing finance ?
5. What is mutual fund marketing ?

Long Questions:

1. What is life insurance ?Explain the difference between life and general insurance?
2. Describe banking industry in detail?
3. What is the role of insurance advisor?
4. Describe about the modern ways to market banking?
5. Explain elements of mutual fund marketing?

B. Multiple Choice Questions

1.....is a tool for simultaneously depicting the service process, the points of customer contact, and the evidence of service from the customer's point of

a) Front end planning
b) Service Blueprinting
c) Service Standardisation

d) Service Culture

2. During a service recovery effort, the employee promptly refunded the customer's money but threw the money at the customer. As a result, the recovery effort violated the customers _____Justice need

a) Interactional

b) Ethical.

c) Social.

d) Procedural

3. During a service recovery effort, the employee was very empathetic to the customer's plight and agreed to replace the defective product. However, it took three months for the replacement product to show up

a) Social

b) Procedural

c) Interactional

d) Distributive

4. The unique service characteristic that reflects the interconnection between the service firm and its customer is called

a) Intangibility

b) Inseparability

c) Homogeneity

d) Perishability

5. Standardized and customized flow of activities, simple and complex number of steps and customer involvement by which a service is delivered is called……..

a) Place Mix

b) Physical Evidence Mix

c) Process Mix

d) People Mix

Answers

1-b, 2-c,3-c,4-b, 5-c

4.20 References

1. Lovelock, C., & Wirtz, J. (2007). *Services Marketing: Textbook*. Publisher.

2. Lovelock, C., & Wright, L. (1999). *Principles of Service Marketing and Management*. Publisher.

3. Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services marketing: Integrating customer focus across the firm.* McGraw-Hill Education.

4. Gronroos, C. (2007). *Service management and marketing: A customer relationship management approach* (3rd ed.). Wiley.

Certificate/Diploma Course in

Retail and Sales Management

UNIT – 5 service design and service delivery

STRUCTURE

5.0 Learning Objectives

5.1 Service design and service Delivery

5.2 Introduction to Service Delivery process

5.3 Service encounters and Moments of truth

5.4 Employee role in Service delivery

5.5 Criteria of Service Employee

5.6 Importance and emotional Approach

5.7 Role of service Provider

5.8 Intermediaries Involved in service process and Service delivery

5.9 Unit End Questions

5.10 References

5.0 learning objectives

After studying this unit, you will be able to:

- Outline the basics of service design
- Summarize the service delivery .
- Summarize the role of service provider
- Describe the intermediaries involved in service provider.

5.1 SERVICE design and service delivery

Introduction to service design

An efficient and effective Service design helps businesses work toward the goal of service excellence. A good way to understand and define it is by reversing the words –―Designing the Service‖. It involves the planning and organizing of many internal factors that finally make up the delivery of service to the end customer.

Creating service design and delivery processes enables those in the service industry to establish a baseline to provide consistent service to the customer and builds up a systematic mechanism that not only ensures a better experience for the customer but also allows organizations to understand what is working for them and what is not in terms of their service delivery.

Processes form an integral part of service design components, along with people and products. People and Products (also called props) have a role to play in the creation and execution of service design, but in this article, we will focus on Processes as a part of Service Design.

Introduction to service delivery

Service delivery is a vital part of running a business. It invites the opportunity to impress your customers and show them the value you offer. It can help to create a great relationship with clients and secure retention.

By creating value and engaging with your employees as well as your customers, you can develop a service delivery culture that ticks every box. But what is service delivery? What are some examples of service delivery? These are the questions we're asking today as well as discussing how service delivery can be improved.

WHAT IS SERVICE DELIVERY?

Service delivery is a business idea and framework, the main goal of which is to provide services from a vendor to a customer. This includes the regular interactions between the two parties throughout the entire process of the business supplying the service and the client purchasing it. This includes the initial interaction, onboarding, set up, and any follow-up interactions.

WHY IS SERVICE DELIVERY IMPORTANT?

When a business has neither the capacity nor the skills to perform a certain service, they outsource this

work.

Service delivery is so important because it helps to bridge the gap between a business or an individual not having the means to perform a task, and a service provider looking to sell their product. Companies can tailor their service delivery to meet the needs of each customer either through price or function.
Companies who engage in efficient, customer-focused service delivery may also be able to distinguish themselves from the competition by providing a higher quality service.

TYPES OF SERVICE DELIVERY EXAMPLES

There are a wide range of industries that provide a multitude of service delivery that cover many products. Some of these service delivery examples are shown below.

- **Consultancy / Professional Services Delivery**

A consulting service that businesses provide could be anything from business turnaround to IT consultancy. They help a wide array of businesses that need it, and can bring in unique expertise and skills that the customer does not usually have access to. A key benefit of a consultant is that they can often provide a view from the outside of the company, and give unbiased advice, two things which the customer may not see due to the fact that they are too close to the business.

- **Support Services Delivery**

An effective customer support service involves assisting customers during both the pre and post-sale journey. Any issues customers run into or any questions they have, your support team will be on hand to provide answers and help them understand your product better. While your support team is crucial to the success of your customers with your product, the way in which your support can be delivered can go beyond your team.

Video guides, FAQ's, and knowledge pages all serve as support materials your customers can use to get the most out of your software. Concise, easily digestible support content at your disposal can sometimes be just as crucial as your actual team because much of this external support can be used at any time, completely eliminating office hours or long virtual queues. Ensuring this content can be accessed easily by your customers is another important step, as delivering these services should be as easy as possible for those who are looking for it who may be facing existing issues with the software, and need no further hassle when looking for the material to aid them.

- **Onboarding Services Delivery**

Onboarding is the first opportunity to create a great and truly memorable customer experience. You only get one chance to make a good first impression and this is that chance!

Unfortunately, many companies don't instill a solid onboarding into their culture. In many cases, just one person will cover multiple roles, aiming to satisfy the demands of Support, Account Management AND Customer Onboarding. This is not a future-focused strategy and will eventually succumb to the weight of demand. Keeping customer success at the heart of the business goals will allow onboarding to take its rightful place in your organization's strategy.

How an effective customer onboarding strategy is delivered can have many steps to it. A dedicated onboa rding team is where you should begin. No more thinly spread team members who are trying to do three jo bs at once. An onboarding team will be able to guide each new customer through the whole process, with a more personalized approach.

Another key aspect of delivering a greatonboarding service is to utilize onboardingplaybooks. This provid es you with a repeatableprocess that the team can follow for everynew customer, guaranteeing consistenc y andcreating the ideal customer experience.

- **Management Consulting Service Delivery**

Effective service delivery is at the heart of any management consulting firm. The question on all of their lips will be how they can structure their processes to be successful in service delivery. This can be broken down into five key areas:

1. Realistic and measurable milestones
2. Clear and consistent communication
3. Quality assurance
4. Timely reporting
5. Effective collaboration

Only with the above in place can they deliver their client promise and provide the best service possible. With management consulting firms, testimonials and positive customer feedback will be the backbone of their strategy to increase their customer base and by extension, their own business.

- **IT Services Delivery**

IT service providers can offer a wide range of services, some of which include standard IT support, which can be anything from password and network management, cloud transfers, and regular backups. IT specialised skills are another big part companies can offer, such as software development, AI services, cyber security, and website management.

WHAT ARE THE ELEMENTS OF A GOOD SERVICE DELIVERY MODEL?

- **Service Culture**

Service culture surrounds the leadership principles, vision, and values of a service provider. Controlling these aspects is done by the management team, and a basis for operations is set clearly throughout the whole organization. Maintaining and developing these components helps to develop and expand a company's social processes which helps to achieve the long-term success of the company.

- **Employee Engagement**

Employee engagement looks at the people within an organization who are involved in service delivery. Employee attitudes can be nurtured by human resources and other leadership teams, who can shape their purpose so that they align with the service culture of the business. This creates an important link between the service delivery design process and the excellence model experienced by the customer.

- **Service Quality**

Service quality is the sum of all of the strategies, systems and processes that are involved in service delivery. All of these parts help dictate the management model that allows the customer to reach their desired outcome within the service delivery process. This component lays the groundwork for the service provider and client partnership.

- **Client Experience**

The main focus of customer service is to provide the customer with the resources and knowledge they need about their service delivery product, including features such as account management and continuous improvement. Something that is required at this stage is an efficient review and collaboration process so the service provider can fully understand how customers view their service delivery, and what steps can be taken to improve this process. This is working best when the client is involved in the creation and delivery process.

What Are Processes Involved in Service Design and Delivery?

What is an example of a service design process? At a restaurant, processes would include taking orders, entering orders, serving food, c At a retail store, processes would include stacking products, billing, inventory, and guiding a customer. At a bank, processes would include verification of details, handing over cash and so on

Actions take place either when a service is carried out or to support the service. Processes may involve only the employee, or both the employee and the customer. In other words, some processes are behind the scenes and some take centre stage.

Why Is it Important to Build Service Processes?

A service can be carried out without specific, laid-out processes or with vague processes. However, in these cases, the inevitable result is that the outcome will be inconsistent and potentially sub-par, creating low or variable customer satisfaction.

By creating clear, specific processes that incorporate every part of a service, organizations establish a guideline to ensure consistency in service, meeting customer expectations and creating satisfaction. At EHL Advisory Services, we work closely with organizations and assist them in designing their customized – ―Book of Hospitality‖, a one-stop shop that documents the ―what to do‖ and ―how to do‖ for all possible customer touchpoints as well as back end processes.

4 Success Factors When Building Service Design and Delivery Process

1. Focus on the Customer

Look at this from the point of view of the customer. Even before you decide to pen down your processes, the first thing that needs to be mapped out is the Customer Journey – what are the various touchpoints that a customer may have while interacting with your organization to experience the product/service?

The idea is to consider the customer journey throughout the service, with a focus on customer needs and expectations during this journey. The processes should focus on adding value without being unnecessary or overly complicated.

• Look for pain points within the customer's journey and think of ways to make improvements to the experience.

• Look to the parts of the process that may be interfering with the satisfaction of the entire experience.

• Consider asking for customer feedback to narrow down pain points

• When establishing processes in terms of the ―what to do‖ and ―how to do‖, you may use the SERVQUAL model – an empiric model designed by Zeithaml, Parasuraman and Berry to understand customer expectations before translating them into service quality specifications or processes.

2. Consider the Sequence

When determining the customer's journey and all the steps it takes to carry out the service, consider the sequence. The service involves steps that are connected and performed in order. It's important to detail that and include it within the process.

So, instead of simply listing the steps that make up the process, list them in order and how they are handed off from one member of the team to the next. For instance, a process in a restaurant could specify:

- Welcoming, greeting and seating the customer
- Introduction of server and the menu/specials of the day
- Taking the order
- Serving the order
- Taking feedback/asking for repeats
- Clearing the order
- Billing
- Farewell

Creating an effective process includes laying out the steps that make up a service. It may involve adding steps, but it should also include taking away actions that don't add value or that detract from the value of the customer experience. For example, an action that makes a guest jump through an unnecessary hoop should be removed to improve the experience. Also, take away actions that make carrying out the service more difficult for staff members. The process should focus on simplicity and only on what is necessary.

3. Consider Each Staff Role Within the Service

Executing each service effectively depends on numerous roles within the organization, both front stage and backstage. It's essential to determine which role is responsible for which part of the service, and how that role should carry out that part. Giving each role a specific part of the process creates ownership within that role, as well as responsibility for carrying it out and accountability for that stage of the

process.

Since carrying out a service involves many different roles, it can be extremely beneficial to get feedback on processes from the team members in those roles. This includes different levels of staff members, and those who are front stage as well as backstage.

Also, remember the ability of your staff while designing the process, do not expect your frontline staff to be able to execute complex processes with consistency.

4. Allow for Flexibility

Back-end processes can and should be rigid and regimented. When you are setting them up, keep in mind efficiency and effectiveness, you set up the process to be performed most thoroughly, e.g.;- checklists (they essentially need to be followed blindly). However, with front-end processes that do involve the customer, always remember that at the end of the day, it is human interaction, establish guidelines as far as the process is concerned and allow for flexibility, allow for your staff to be able to adapt to the situation, do not make front end processes so rigid and regimented that they negatively impact the customer experience. Highly rigid and regimented processes are the door opener for the ―I will hide behind the rules‖ sin as a part of the Seven Sins of Customer Service.

Above all, with processes, make sure that you can streamline (as per the customers' requirements) and track them.

Overall, service design makes the customer experience the priority and does everything possible to ensure that it is always a positive, and satisfying experience. Back-end processes support this with efficiency and effectiveness – leading to consistency, front end processes bring in the human element, which can be variable but setting up processes helps achieve some consistency here as well. You will face situations where processes are not followed and there are service breakdowns - that is where Service Recovery kicks in. Error-free service in a high-touch industry is close to impossible, which is why what sets organizations apart is how they recover from these breakdowns, our article on a robust Service Recovery Model can give you further insights into this.

Processes tell everyone on the team exactly what they need to do to meet (and sometimes exceed) the guest's needs and expectations. This creates customer satisfaction, which is the ultimate goal.

5.2 service delivery process

Service delivery management (SDM) refers to providing clients with information technology (IT)

software. The purpose of SDM is to ensure clients understand the capabilities and functions of the software so they may utilize it to its full potential. By reviewing typical SDM procedures, you can identify effective methods for improving customer satisfaction with excellent service delivery. In this article, we provide an answer to the question _What is service delivery management?', detail the role of a service delivery manager, outline the typical SDM components and discuss why it's important.

What is service delivery management?

The answer to the question _What is service delivery management?' is that it's a process for ensuring clients have the resources to operate software as intended. Software products can be particularly complex for clients who don't have extensive experience and knowledge of operating IT software. The clients typically require information that allows them to understand the product's features and functions. An effective service delivery strategy can ensure clients understand the software product and can utilise it as intended.

Service delivery management is essentially the management of communication channels between clients and the IT provider. These communication channels ensure the clients have the resources they need to operate the software. Service delivery refers to the initial provision of the software and the ongoing delivery of the service. For example, if a client has issues with their software, they may notify the software provider. If the provider can't resolve the issue, it's technically a service delivery issue. This is because the client isn't receiving the product they paid to utilise.

What does a service delivery manager do?

A service delivery manager manages the provision of software. They're essentially an IT project manager for projects that provide ongoing services. This provision of software typically entails several components that require implementation, management and a reviewal. The primary purpose of a service delivery manager is usually to resolve customer issues, improve client satisfaction and ensure the product meets the clients' demands.

Below, you can explore the typical responsibilities of a service delivery manager:

- **monitoring** IT support procedures to ensure clients receive the technical support they require
- **evaluating** IT support performance and implementing improvement strategies to ensure effective communication and support
- ensuring team members understand the project scope and deliverables
- improving service delivery management procedures to ensure clients receive excellent customer service

- analysing internal processes for the improvement of service delivery management
- managing upgrade procedures for software products
- fostering relationships with clients, team members and stakeholders to improve communication channels
- collaborating with IT teams to determine the standards of software performance and security
- managing the recruitment, performance evaluation, mentoring and training of IT project teams.

9 typical components involved in service delivery management

There are usually many processes for managing the delivery of IT services. These processes might vary depending on several factors, such as the organisation's goals, the project team's expertise, the software functions, the demographics of clients and the project deliverables. While service delivery management processes might differ, they usually incorporate similar procedures and service delivery components.

Below, you can explore the typical components involved with service delivery management:

1. Communicating with stakeholders

Communication can be a crucial aspect of delivering software services to clients. A service delivery manager often communicates with stakeholders, such as IT professionals, clients and project managers. When communicating with colleagues, an SDM manager may discuss a variety of elements, such as customer service performance, software performance, error reports and software solutions. Service delivery management also involves communication with clients. Some clients may require extensive information on the functions and features of their software. This can require accurate, clear and informative information from software teams.

2. Building client relationships

Fostering loyal clients and ensuring their satisfaction with software products is usually one of the primary functions of a service delivery team. A service delivery manager reviews customer support strategy to ensure clients receive professional, timely and technical support. They may also review onboarding processes to identify any additional information that might assist clients in becoming familiar with the software. If a service delivery team provides clients with excellent customer service and resolves their issues promptly, the customers may likely feel satisfied with the product. Satisfied customers are usually the favourable outcomes of service delivery management.

3. Identifying software problems

As part of fostering client relationships and providing effective software, a service delivery manager implements problem-solving strategies and procedures. There might be many issues regarding software, from network connectivity issues to software errors. A service delivery manager may ensure the client receives professional technical support. This usually includes a procedure for understanding client IT infrastructure, identifying software issues and determining effective solutions. A service delivery manager may tailor specific technical support for different clients to ensure the IT support team resolves issues quickly and effectively. If a software service has issues, timely resolutions can maintain client satisfaction.

4. Planning project activities

Software services are usually ongoing projects that involve many components and activities. A service delivery manager usually plans and schedules these activities. They may define the project scope, determine deliverables, set timelines, identify risk and allocate resources. A service delivery project differs from a software development project, in that its primary focus is to maintain software performance rather than developing software functions. If a service delivery manager can plan project activities effectively, they may ensure clients receive professional customer service and an operational software product.

5. Providing 24/7 support

24/7 support refers to technical support services being available regardless of time or day. This can be an extremely important SDM component, as it can directly influence a client's satisfaction with the product. Clients who receive support when they request it may feel satisfied with the level of customer service, which can influence their perception of the software product. A service delivery manager may implement automated ticketing systems to ensure an efficient and effective problem-solving procedure. These ticketing systems may automatically prioritise support requests by their level of importance or severity.

6. Offering modern technology

Service delivery managers usually research markets and technology innovations to identify modern software that can benefit their clients. This component of SDM might be more relevant to the development of software, but it can still be an important aspect of ensuring customer satisfaction. If an IT provider offers its clients the latest in software technology, the clients may feel inclined to continue using the provider's products. Ensuring software products are modern and relevant is usually an important component of delivering software services and improving client retention rates.

7. Upgrading technology

Software may frequently receive upgrades regarding performance, features and security. The upgrade process can be crucial, as it might cause software issues, such as incompatibility with integrated applications and missing backup data. A service delivery manager may implement procedures that protect clients' data and ensure software receives upgrades in a timely manner. They may also communicate the upgrades with clients, such as new features and functionality. Ensuring clients understand the upgrade features and processes can be important for maintaining client relationships.

8. Managing delivery performance

Customers entering a software service agreement usually sign a Service Level Agreement (SLA) with the software provider. The SLA is essentially a contract detailing the service provider's obligations to meet expectations and standards agreed upon by both parties. A service delivery manager may monitor the performance of the software to ensure the provider meets the SLA. They typically implement key performance indicators (KPIs) that provide information about software performance, such as latency and volume of errors. They may also implement KPIs for customer service and technical support procedures, which can show the effectiveness and efficiency of software solutions.

9. Integrating applications

Depending on the client and their software needs, they may request additional applications, such as data tools and management systems. Integrating these applications into the existing software can be an important step in delivering professional service. A service delivery manager may implement procedures, similar to upgrade procedures, to ensure the integration process incurs no errors.

Why is service delivery management important?

Service delivery management can be important for both software providers and clients. For clients, SDM can ensure they receive a functional software product, along with the resources required to operate the software. They can also receive timely and professional technical support. For the software provider, effective SDM can help improve their customers' satisfaction and loyalty. By providing effective technical support and ensuring customers receive optimised software, the customers may feel inclined to continue utilising the provider's services.

5.3 service encounters and moments of truth

From the customer's point of view, the most vivid impression of service occurs in the service

encounters or ―Moment Of Truth,‖ when the customer interacts with the service firm. This is the foundation to **"Satisfaction of Service Quality"** — it is where the promises are kept or broken. The concept of service encounter-was put forth by Richard Norman, taking the metaphor from Bull Fighting. Most services are results of social acts, which take place in direct contact between the customer and the service provider. At this stage the customer realises the perceived service quality.

Every ―Moment of Truth‖ is Important — according to Scandinavian Airlines, each one of their 10 million customers come in contact with 5 employees. Thus the airlines say there 50 million moments of truth — each one is managed well and ―They prove they are the BEST‖.

Encounter Cascade

The encounter cascade refers to a series of encounters right from the time a customer comes to take the service. The encounter cascade can be important as any encounter can be critical, as it determines customer satisfaction and loyalty. If it's the first interaction of the customer then the initial interaction will be the first impression. So, these interactions have to be given importance, as they are critical and influences customer's perception of the organization. For example, a customer calling for the repair service may switch to some other company if he is put on hold for a long time or even treated rudely. Even if the technical quality of that firm is superior, the firm may not get a chance to prove themselves in front of the customer. When the customer has had many interactions with firm, each encounter will be important as it will create a combined image of that firm. Many positive experiences will give an image of ―high quality‖ and many negative experiences will represent a bad image. Combination of positive and negative interactions will leave the customer confused about the quality.

It is suggested that not all encounters are equally important in building long-term relations. For every organization, certain encounters can act as a key to customer satisfaction. For example, in a hospital context, a study of patients revealed that encounters with the nursing staff were more important in predicting the customer satisfaction. As it is rightly said ―one bad apple can ruin the whole basket of apples.‖ The same applies in this too; one negative encounter can drive the customer away, no matter how many encounters had taken place in the past. So a firm has to give a lot of importance to such encounters.

However some encounters are more critical. For example, a customer who has been using a bank for nearly 15 years is quite happy with the service. He has a huge deposit and many accounts. One fine morning, when he comes out of the bank the watch man asks 5$ for parking charges of his car. He goes inside the bank and informs the clerk at the counter, who directs him to the officer. The officer directs him to the Manager, who says he is helpless as this is a new policy of the bank. The customer who was so happy with the bank services decides to close all his accounts.

Types of Service Encounters

A service encounter occurs every time a customer interacts with the service organization. There are three general types of service encounters – remote encounters, phone encounters, and face-to-face encounters. A customer may experience any of these types of service encounters, or a combination of all three in his/her relations with a service firm.

- **Remote Encounter: E**ncounter can occur without any direct human contact is called as Remote Encounters. Such as, when a customer interacts with a bank through the ATM system, or with a mail-order service through automated dial-in ordering. Remote encounters also occur when the firm sends its billing statements or communicates others types of information to customers by mail. Although there is no direct human contact in these remote encounters, each represents an opportunity for a firm to reinforce or establish perceptions in the customer. In remote encounter the tangible evidence of the service and the quality of the technical process and system become the primary bases for judging quality. Services are being delivered through technology, particularly with the advent of Internet applications. Retail purchases, airline ticketing, repair and maintenance troubleshooting, and package and shipment tracking are just a few examples of services available via the Internet. All of these types of service encounters can be considered remote encounters.
- **Phone Encounters:-** In many organizations, the most frequent type of encounter between a customer and the firm occurs over the telephone is called as phone encounter. Almost all firms (whether goods manufacturers or service businesses) rely on phone encounters in the form of customer-service, general inquiry, or order-taking functions. The judgment of quality in phone encounters is different from remote encounters because there is greater potential variability in the interaction. Tone of voice, employee knowledge, and effectiveness/efficiency in handling customer issues become important criteria for judging quality in these encounters.
- **Face-to-Face Encounters:** A third type of encounter is the one that occurs between an employee and a customer in direct contact is called as Face-to-Face Encounter. In a hotel, face—to—face encounters occurs between customers and maintenance personnel, receptionist, bellboy, food and beverage servers and others. Determining and understanding service equality issues in face—to—face context is the most complex of all. Both verbal and non-verbal behaviours are important determinants of quality, as are tangible cues such as employee dress and other symbols of service (equipment's, informational brochures, physical settings). In face—to—face encounters the customer also play an important role in creating quality service for herself through his/her own behavior during the interaction. For example, at Disney theme parks, face-to-face encounters

occur between customer and ticket-takers, maintenance personnel, actors in Disney character costumes, ride personnel, food and beverage servers, and others. For a company such as, IBM, in a business-to-business setting direct encounters occur between the business customers and salespeople, delivery personnel, maintenance representatives, and professional consultants.

Moment of truth

Moment of truth is a marketing concept that refers to any moment of interaction with a brand that can change or form a consumer's opinion about its products or services. There are 5 stages in a customer journey and identifying key touch-points, personalising interactions, and asking for feedback from your customers can help you create a flawless customer experience.

A customer's brand experience can make or break a business relationship at any moment of truth. It can also determine whether an existing customer leaves or remains loyal to your brand.

While there are numerous interaction points along the customer journey, not all of them have a significant impact on the brand's success. Hence, to create or identify your moment of truth, search for interaction points that can leave a lasting impression on your customers.

By asking questions through surveys and getting insights from user communities, you can identify possible pain points that may be associated with these interactions.

What are the 5 moments of truth stages?

The 5 moments of truth stages are based on different parts of the customer journey. It begins when your customer realises they need a product or service until the point of conversion.

1. **Less than zero moment of truth (<ZMOT)**

The less than zero moment of truth describes the earliest stage of the customer life cycle. Here, an individual to realises they need a product or service. At this point, this individual is a prospective customer and will usually interact with ads, social media posts, or emails from relevant brands as they look for the product or service to use.

It is an opportunity for your brand to drive targeted marketing content through various channels.

2. **Zero moment of truth (ZMOT)**

At this stage, the individual is already exposed to your brand but needs additional information to make a buying decision. The term zero moment of truth was coined by Google to include the impact of the Internet on customer buying behavior.

According to Think with Google, 53% of shoppers do their research before making a buying decision. Hence, online reviews play a huge role in convincing prospective customers to choose your brand over others. Providing adequate information about products or services also gives your brand a competitive advantage.

3. **First moment of truth (FMOT)**

The first moment of truth refers to the first 3-7 seconds of a consumer coming in contact with your product or service whether online or in a physical store. This is the actual moment of conversion for marketers.

4. **Second moment of truth (SMOT)**

This stage refers to the experience the customer has with the product after purchase. It determines the customer's future buying decision. If the customer has a good experience using the product, they'll likely choose the same brand again. What's more, they might recommend the brand to their social circles.

5. **The ultimate moment of truth (UMOT)**

When your customer publishes feedback content after an experience with your brand, they are at the ultimate moment of truth. It could be a review or social media post about how they enjoyed using your products or services. This is a form of brand advocacy that attracts new prospects to your brand.
It can also affect how well a brand can engage prospective customers at the zero moments of truth. This is because social reviews and user-generated content are a major source of information for people when they research a brand's products or services.

Why does a moment of truth matter?

Identifying these points in your customers' interaction with your brand is a huge factor in customer retention. With many brands producing similar products for the same market, you need a competitive advantage to stand out.

Your customers' view of your brand is based on your ability to engage them at the main interaction points. For example, if you offer an intangible product, the quality of your customer service will determine your customers' view of the brand. This will also determine your market position.

Examples of moments of truth

Moments of truth apply to both consumer and B2B brands. Here are two main examples that happen with B2B and B2C companies respectively:

- **Onboarding B2B customers**

The onboarding experience is a typical example of the second moment of truth (SMOT). It creates a far-reaching impression that affects the customer-brand relationship throughout the customer journey. It determines how the customer perceives the company and interacts with it going forward.

Clients who are properly onboarded are usually quick to renew their subscriptions or upgrade their plans. In contrast, clients with a less than effective onboarding process never get to fully learn how to maximize the product. They may not even see the reason to renew their subscription or upgrade their plan.

To create the best impression at this moment of truth, B2B companies ensure they have
effective customer service. Clients must be able to reach customer care agents as soon as they require help or have a question.

- **A B2C customer onboarding**

Assume a person visits a store and sees a product on display. When they pick the product up and they form an impression that can prompt them to either buy it or put it back on the shelf.
This type of experience falls under the first moment of truth (FMOT).

Other examples are:

- seeing a product ad on TV (<ZMOT)
- getting a product demo (FMOT)
- trying a product sample at the store (FMOT)
- speaking with a customer representative on the phone (SMOT)
- a customer publishing a product review on their blog (UMOT)

5.4 employee role in service delivery

Employees are key drivers of sustained business success in companies as diverse as Charles Schwab, Enterprise Rent-A-Car, USAA Insurance and Chick-fil-A. Consider the case of Singapore Airlines, a restless toddler repeatedly dropped him pacifier. Every time the child would cry, and someone would retrieve the pacifier. Finally, one of the attendants picked up the pacifier and attached it to a ribbon and sewed it to the child's shirt. The child and the mother were happy and passengers seated nearby gave the attendant a standing ovation.

The front-line service is enormously important in any business. They are responsible for understanding

customer needs and for interpreting customer requirements in real time. By focusing on the critical role of service employees and by developing strategies that lead to effective customer-oriented service, organizations can begin to close the service performance gap.

1. Service Culture

A culture of service is an organizational culture that prioritizes customer service in all goals, decisions, actions, and everyday operations. When an organization has a heart for service, each employee is connected emotionally to a world-class service outcome.

Better yet, a service culture is thriving when it becomes the foundation of everything that happens in your organization; when decisions, behaviours, strategies, meetings, interactions, signage, forms, messages, etc. are all designed and executed to support and sustain service delivery-to both internal and external customers.

- Exhibiting Service Leadership

A strong service culture being with leaders in the organization who demonstrate a passion for service excellence. Leadership does not consist of bestowing a set of commands from a thick rule book but, rather the regular and consistent demonstration of one's value.

- Developing a service culture

A service culture cannot be developed overnight, and there is no easy way to sustain a service culture. The human resource and internal marketing practices can develop a service culture over time.

- Transporting a service culture

Transporting a service culture through international business expansions is also very challenging.

Attempting to ―export‖ a corporate culture to another country creates additional issues. Although tremendous opportunities exist in the global marketplace, the many legal, cultural, and language barrier become particular evident for services that depend on human interaction.

2. The Service Triangle

The service marketing triangle or the Service triangle as it is commonly called, underlines the relationships between the various providers of services, and the customers who consume these services.

Relationships are most important in the services sector. The service triangle outlines all the relationships that exist between the company, the employees and the customers. Furthermore, it also outlines the importance of systems in a services industry and how these systems help achieve customer satisfaction.

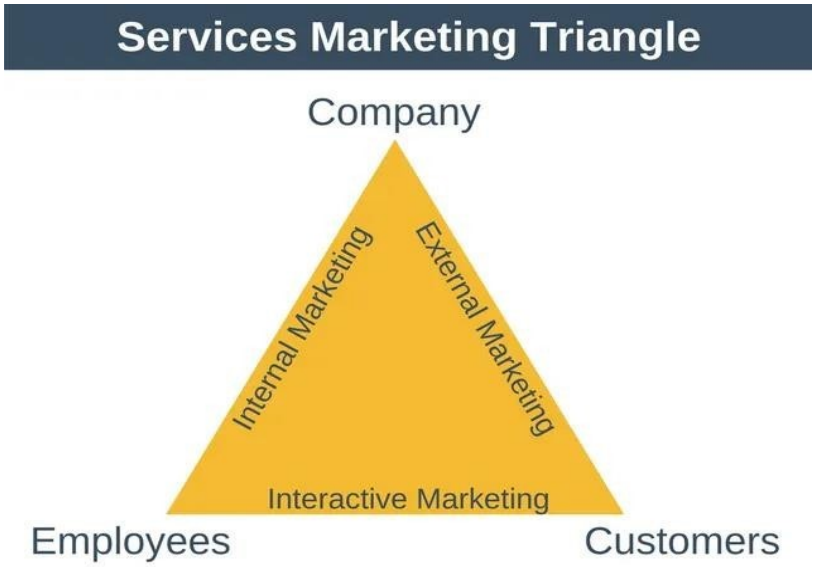


Fig 5.1: Services Marketing Triangles

As the name suggests, the service marketing triangle can also be used to market the service to consumers. The marketing completely depends on the interaction going on between the customer and the service provider. We will look at each of these interactions in detail, and also read on how to market to your customer based on the interaction.

3. Boundary-spanning roles

If you have a small business and don't have as many technological resources as a large company, utilising boundary spanning roles can allow your small business to flourish. As an extra bonus, it can also help large companies become even more competitive.

Boundary spanning roles interact with individuals and groups outside the organization to obtain valuable information to help the innovation process. Boundary spanning roles allow a company to gain more innovation information from other businesses. It's useful to gain insight from other organizations that you may not be aware of. Not just management is involved in boundary spanning; all employees can get information from one or more companies and bring information back to their business to help improve innovation.

4. Strategies for delivering service quality through people



Fig 5.2: Strategizing

A complex combination of strategies is needed to ensure that service employee are willing and able to deliver quality services and that they stay motivated to perform in customer-oriented, service-minded ways. Within each of these basic strategies are a number of specific sub-strategies for accomplishing the goal

- **Hire the right people:** Hiring the right people is crucial for the success of your business and that's why entrepreneurs should have a formal hiring process in place when looking for new staff. By putting time and work into finding the right people, you will improve your chances of hiring the best performers and avoiding costly and painful mistakes.
- **Develop people to deliver service quality:** To provide quality service, employees need ongoing training in the necessary technical skills and knowledge and in process or interactive skills. Examples of technical skills and knowledge are working with accounting systems in hotels, cash machine procedures in a retail store, underwriting procedures in an insurance company, and any operational rules the company has for running its business. Most service organizations are quite conscious of and relatively effective at training employees in technical skills.
- **Provide needed support system:** To be efficient and effective in their jobs, service workers require internal support system that are aligned with their need to be customer focused
- **Retain the best people:** Employee retention matters. Failing to retain a key employee is costly to the bottom line and creates organizational issues such as insecure coworkers, excess job duties that coworkers must absorb, time invested in recruiting, hiring, and training a new employee. Various estimates suggest that losing a middle manager costs an organization up to 100 percent of their salary. The loss of a senior executive is even more costly. This is not only because of the lost revenues but also due to the fact that hiring and training a replacement is costly to your organization.

5. Customer-Oriented Service Delivery

A customer orientation approach means that the company gives a lot of importance to the customer and is a customer oriented company. Such companies make all their marketing strategies with customers at the apex of the pyramid.

The key to having customer orientation is to add as much value as possible to your products. The customers love the company which provides them value. Hence, overall, customer orientation involves four steps of value addition so that the customers are satisfied and happy with the company.

6. Summary

Because many service are delivered by people in real time, closing the service performance gap is heavily dependent on human resource strategies. The successful execution of such strategies begins with the development and nurturing of a true service culture throughout the organization.

5.5 criteria for service employee

Criteria for service employee is **accessibility and flexibility, reliability and trustworthiness,** and recovery are process-related and thus represent the functional quality dimension. These six criteria of good service quality can be viewed as guidelines based on a solid body of empirical and conceptual research.

Seven criteria make a customer service standard effective. Start by reviewing your current standards against this list and revamp the ones that need it. Effective standards need to be as follows:

- **Specific:** Standards tell service people precisely what is expected of them. Customers don't have to guess about your expectations or make anything up.

- **Concise:** Standards don't explain the philosophy behind the action. Instead, they get right to the point and spell out who needs to do what by when.

- **Measurable:** Because actions in a standard are all specific criteria, they are observable and objective, which makes them easy to quantify.

- **Based on customer requirements:** Standards need to be based on customer requirements and not just your industry's standards. Fulfilling your customers' expectations gives you an advantage over competitors that do not.
- **Written into job descriptions and performance reviews:** If you want employees to adhere to the standards, then write them down and make them part of each employee's job description and performance review. Using standards as a management tool gives them more credibility.

- **Jointly created with your staff:** The best standards are created by management and staff together based on their mutual understanding of customer needs. You may want to consider using quality groups as a vehicle for having members of your staff come up with service standards.

- **Fairly enforced:** Standards that are enforced with some people and not with others quickly erode. Company-wide standards require everybody to conform to them, including the top brass. Department-specific standards apply to everyone within that department, including the manager.

5.6 importance and emotional approach of service employee

Because services can't be seen or touched, marketing them is a difficult but very important job.

1. A key differentiator:

As products become more similar, the services that go along with them are becoming a key differentiator in the minds of consumers. For example, Pizza Hut and Domino's both serve pizza, but they are different from each other more because of the quality of their service than because of the pizza itself. So, marketers can use the services they offer to set themselves apart from the competition and draw in customers.

2. Importance of relationships:

Relationships are a key part of marketing services, so it's important to keep them in good shape. Since the product can't be seen or touched, a lot of the customer's decision to buy will depend on how much he trusts the seller. So, it's important to listen to what the customer wants, meet those needs with the right service, and build a long-term relationship that will lead to repeat sales and good word of mouth.

3. Customer retention:

In today's highly competitive market, where many companies compete for a small number of customers, keeping customers is even more important than getting new ones. Since services are usually made and used at the same time, the customer is actually involved in the process by taking his needs and feedback into account. So, they give customers more options for customisation based on their needs, making them happier and more likely to stick with the company.

Emotional approach coping is a psychological construct that involves the use of emotional processing and emotional expression in response to a stressful situation. As opposed to emotional avoidance, in which emotions are experienced as a negative, undesired reaction to a stressful situation, the emotional approach coping involves the conscious use of emotional expression and processing to better deal with a stressful situation. The construct was developed to explain an inconsistency in the stress and coping literature: emotion-focused coping was associated with largely maladaptive outcomes while emotional processing and expression were demonstrated to be beneficial.

An emotional employee is a team member whose emotions can affect their performance at work. Their feelings may not only impact their performance or productivity but, depending on the extent of the feelings, may affect the entire team. This may lead to broader issues with staff engagement and motivation. The top priority when managing an emotional employee is to de-escalate the situation and help the employee become calm. Learning how to manage emotional conversations productively can help to create a cohesive team where everyone feels supported.

5.7 Role of service provider

Service Provider: Roles & Responsibilities

Knowing the roles and responsibilities of your support team is important. It helps to ensure that you know what to expect, who to talk to if you have questions or issues. When it comes to the roles and responsibilities of a service provider, whether they are registered or unregistered with the NDIS, the core roles and responsibilities are much the same.

What is a Service Provider?

A service provider is an individual, business or organisation that delivers NDIS funded supports to participants. Providers can be large companies, charities, small not-for-profits, sole traders, or any other type of business.

There are many providers to choose from each with different skills, experience, and expertise in their

respective fields. It's important when choosing a provider to be part of your support team, that you choose a provider who suits your needs and can help you to work towards your goals.

Participants who are agency or NDIA managed can only access providers who are registered with the NDIS, whereas participants who are self or plan managed can access both NDIS registered and unregistered providers.

Registered vs Unregistered

The main difference between registered and unregistered providers is simple – a registered provider has gone through the NDIS registration process and have been verified by the NDIS Quality and Safeguards Commission.

Registered providers must also adhere to the NDIS Pricing Arrangements and follow a strict set of rules and regulations when providing support services to a participant.

Unregistered providers can set their own prices, although they are still heavily regulated and must also adhere to the NDIS Code of Conduct.

Why some providers choose not to be registered

Although the NDIA encourages service providers to register, this process can take a lot of time, money, and effort for a service provider. For this reason, there are many service providers who choose not to register with the NDIA. Often small businesses and sole traders opt not to register, and sometimes even larger businesses choose not to either. This effectively labels them as _unregistered service providers.'

It's important to note that just because a service provider chooses to remain unregistered with the NDIS doesn't mean that you shouldn't engage their services. Many unregistered service providers offer participants essential and highly skilled services, that can assist in them reaching their goals. Their services are still covered by the NDIS however funding for these services must fit within the price guide otherwise you will be required to fund any gap.

Roles & Responsibilities

Whether a provider is registered or unregistered, they need to follow the NDIS Code of Conduct. Some responsibilities under the Code of Conduct include:

- Providing goods and services funded under the NDIS guidelines of Reasonable and Necessary
- Provide ATO compliant tax invoices for goods and services provided to a NDIS participant

- Maintain records and evidence that the goods and services have been provided
- Maintain current Working with Children checks if supporting children
- Keep plan managers up to date with any administrative changes
- Although it is not mandatory for unregistered providers to create a service agreement as it is with registered providers, it is highly recommended to ensure that the services being provided are clearly outlined along with other key information.

5.8 Intermediaries involved in service process and service delivery

Indirect Distribution | Roles of service intermediaries

Delivery of services through intermediaries

Nowadays, many services are delivered by intermediaries. Two service marketers are involved in indirect distribution; the service principal and the service deliverer. The service principal is the originator and the service deliverer is the intermediary. The service principal is the entity which creates the service concept.

The service deliverer is the entity which deals with the customers during the execution of the service. Thus, in the indirect channel, both the service supplier and the intermediaries play an important role.

Role of service intermediaries in Indirect distribution

Service intermediaries discharge many important functions for the service principal.

1. Service intermediaries co-produce the service and make the service available to customers at a place and time of their choice, thus fulfilling the promises made by the service firms to customers.

2. The Franchisee uses the process developed by the service principal and renders satisfying service to customers.

3. Service intermediaries also make service locally available.

4. Intermediaries act as multiple service principals. Intermediaries such as travel agents and insurance agents provide retailing function to customers.

5. In many financial or professional services, intermediaries build a relationship based on trust which is essential in a complex service offering.

6. Services are intangibles and perishables and inventories do not exist. Therefore, service distribution focuses on identifying ways to bring the customer and principal together. Service intermediaries such as franchisees agents, brokers, etc., act as a connecting link between the service firm and customers.

7. Service intermediaries deliver services according to the specifications of the principals.

8. Service intermediaries are in direct contact with the customers. So, they are in a position to determine the way customers perceive the quality of the service.

9. Service intermediaries advise the customers on the choice of the service which satisfies their needs.

10. Intermediaries provide after sales support to the customers. For example, an insurance agent guides the policy holder in making a claim and goes through the procedural formalities in connection with that claim.

11. An intermediary, as a co-producer of a service shares the risks of providing services by contributing their own capital to acquire the equipment needed for the delivery of service.

12. A service provider sells only his own services. But consumers prefer to buy service from an intermediary who offers a wide variety of services including these offered by competing service principals. The advantage of intermediaries is that they offer different services at one location.

13. Intermediaries relieve the service principal from the botheration of making huge investment on his own. As intermediaries operate at different places, a service principal can invest his funds in core services.

5.9 Unit End Questions

A. Descriptive Questions

Short Questions:

1. Define service delivery?
2. Explain what is service delivery process?
3. Describe briefly about intermediaries involved in Service Process and Service Delivery.
4. Why should you care about moments of truth?
5. What are examples of moments of truth?

Long Questions:

1. Describe about service design and service delivery. Explain t's importance and it's process?

2. What is the role of employee in service delivery?
3. Describe about the moment of truth in marketing? Why should you care about moments of truth? What are examples of moments of truth?
4. Explain about the criteria of service employee, its importance and emotional approach in marketing.
5. Who are the intermediaries involved in service process and service delivery and how much this is important in service marketing?

B. Multiple Choice Questions

1. Service is delivered within the marketing environment. The macro environment can be analyzed using which of the following tools?

a) SWOT.

b) PEST

c) TOWS

d) None of these

2..... is the environment in which the service is delivered and where the firm and customer interact and any tangible components that facilitate performance or communication of the service.

a) Physical evidence

b) Process

c) Place

d) People

3. If a firm is practicing ..... the firm is training and effectively motivating its customer-contract employees and all of the supporting service people to work as a team to provide customer satisfaction

a) Double-up –marketing

b) Internal marketing

c) Interactive marketing

d) Service marketing

4. All human actors who play a part in service delivery and thus influence the buyer's perceptions: namely, the firm's personnel, the customer and other customers in the service environment.‖

a) Process
b) Physical Environment
c) People
d) Place

5. This is when customers visit the service facility so that they are personally involved in the service delivery process

a) Low-contract service
b) High contract service
c) Medium contract service
d) Information processing service

Answers

1-b, 2-a, 3-b, 4-c, 5-b

5.10 References

1. Lovelock, C., & Wirtz, J. (2007). *Services Marketing: Textbook*. Publisher.
2. Lovelock, C., & Wright, L. (1999). *Principles of Service Marketing and Management*. Publisher.
3. Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services marketing: Integrating customer focus across the firm.* McGraw-Hill Education.
4. Gronroos, C. (2007). *Service management and marketing: A customer relationship management approach* (3rd ed.). Wiley.

Certificate/Diploma Course in

Retail and Sales Management

UNIT – 6 customer expectations and perceptionsof service through marketing

STRUCTURE

6.0 Learning Objectives

6.1 Customer Expectations and Perceptions of service through Marketing Research

6.2 CRM in services

6.3 Marketing research and the service firm

6.4 Scope of marketing research in services

6.5 Understanding customer expectations

6.6 Service Expectations

6.7 Factors influencing Customer Expectations of service

6.8 Managing Customer service Expectations

6.9 Understanding Customer Perceptions

6.10 Unit End questions

6.11 References

6.0 learning objectives

After studying this unit, you will be able to:

- Outline the basics of customer expectations and perception of services
- Summarize the customer expectations.

- Summarize the classification of customer expectations.
- Describe the customer perceptions.

6.1 INTRODUCTION

Customer Expectations and Perceptions of Services through Marketing Research

Evaluation of Services

An organization that understands customer expectations and is able to fulfil them to the best of its ability is the one that succeeds in the competitive world of marketing. Fulfilling customer expectations leads to satisfaction and exceeding expectations in terms of service delivery results in delight. However, when a customer expects superior service and his experience is otherwise, he feels dissatisfied.

Dissatisfaction of customers may result in several adverse effects such as spread of negative word of mouth. Hence, it is important for a firm to promise only what they can deliver in order to abstain from having dissatisfied customers.

Expectations of service

People form expectations of the services they are about to avail based on their own prior experience, familiarity or past experiences of near and dear ones.

Perceptions are affected by expectations. Examples of expectations and perceptions:

- A student who has taken admission in a reputed University and has heard of the high quality education being offered by it shall probably perceive the institute in the same manner once he starts studying there.
- A girl who has been told how horrifying a horror movie is will probably perceive it the same way when she watches it.
- A boy who goes to a salon for a haircut shall probably like the services offered if the salon has previously been praised by his friends.

Perceptions of Service

Perception, in general, is defined as a process through which people select organized stimuli and interpret it such that it frames a meaningful picture.

Perceptions vary from one person to the other. For marketers, perception of customers is more important

than reality since customers make purchases on the basis of their perceptions.

For example, people perceive Dominos to deliver their pizzas in 30 minutes. This is because they have positioned their product and services in that manner.

Adhering to promises and fulfilling them helps in building brand image.

Perceived Quality of Services

A service may deliver high quality in reality, however it is not necessary that the quality of service offered is perceived as superior by the consumer. Perceived quality of the service shall be dependent on various cues that may be classified as extrinsic or intrinsic cues. It is difficult to gauge the quality of service being availed since it is intangible and perishable.

At times, there exists a gap between what the customer expects and what he receives. This is best explained by the framework called Gaps Model. The larger the gap between expectations and perceptions, more is the dissatisfaction. Hence, it is in a marketer's best interest that he narrows the gap to the maximum extent possible to be able to fulfill the customer's expectations.

The SERVQUAL scale is used for measuring the

"gaps" that exist between the expectations of the consumer and his perceptions of service availed. The measurement of these distances between expectations and perceptions, called gaps, is done based on two major factors:

1. Outcomes

These depend on the reliability of services being delivered to the consumer. For example, whether or not a flight you took helped you reach the desired destination.

2. Processes

These predominantly focus on how desired core services were delivered. This includes aspects like assurance and empathy. For example, the behavior of flight attendants while dealing with you in the flight.

For example, the core service of Amazon is to sell varied products and brands. However, what helps it succeed in a competitive market is the superior

"processes" that it follows, like timely and reliable delivery of products. One can also track the ordered product while in transit. All of this contributes immensely in increasing the brand loyalty of existing customers and also in customer acquisition.

6.2 CRM IN SERVICES

Customer relationship management (CRM) is the combination of practices, strategies and technologies that companies use to manage and analyze customer interactions and data throughout the customer lifecycle. The goal is to improve customer service relationships and assist in customer retention and drive sales growth. CRM systems compile customer data across different channels, or points of contact, between the customer and the company, which could include the company's website, telephone, live chat, direct mail, marketing materials and social networks. CRM systems can also give customer-facing staff members detailed information on customers' personal information, purchase history, buying preferences and concerns.

Why CRM benefits businesses

The use of CRM systems can benefit organizations ranging from small businesses to large corporations, through:

- Having customer information such as past purchases and interaction history easily accessible can help customer support representatives provide better and faster customer service.
- Collection of and access to customer data can help businesses identify trends and insights about their customers through reporting and visualization features.
- Automation of menial, but necessary, sales funnel and customer support tasks.

Components of CRM

At the most basic level, CRM software consolidates customer information and documents it into a single CRM database so business users can more easily access and manage it.

Over time, many additional functions have been added to CRM systems to make them more useful. Some of these functions include recording various customer interactions over email, phone, social media or other channels; depending on system capabilities, automating various workflow automation processes, such as tasks, calendars and alerts; and giving managers the ability to track performance and productivity based on information logged within the system.

- **Marketing automation.** CRM tools with marketing automation capabilities can automate

repetitive tasks to enhance marketing efforts at different points in the lifecycle for lead generation. For example, as sales prospects come into the system, it might automatically send email marketing content, to turn a sales lead into a full-fledged customer.

- **Sales force automation.** Sales force automation tools track customer interactions and automate certain business functions of the sales cycle that are necessary to follow leads, obtain new customers and build customer loyalty.
- **Contact** centre **automation.** Designed to reduce tedious aspects of a contact centre agent's job, contact centre automation might include pre-recorded audio that assists in customer problem-solving and information dissemination. Various software tools that integrate with the agent's desktop tools can handle customer requests to cut down on the length of calls and simplify customer service processes. Automated contact centre tools, such as chatbots, can improve customer user experiences.
- **Geolocation technology, or location-based services.** Some CRM systems include technology that can create geographic marketing campaigns based on customers' physical locations, sometimes integrating with popular location-based GPS (global positioning system) apps. Geolocation technology can also be used as a networking or contact management tool to find sales prospects based on a location.
- **Workflow automation.** CRM systems help businesses optimize processes by streamlining mundane workloads, enabling employees to focus on creative and more high-level tasks.
- **Lead management.** Sales leads can be tracked through CRM, enabling sales teams to input, track and analyze data for leads in one place.
- **Human resource management (HRM).** CRM systems help track employee information, such as contact information, performance reviews and benefits within a company. This enables the HR department to more effectively manage the internal workforce.
- **Analytics.** Analytics in CRM help create better customer satisfaction rates by analyzing user data and helping create targeted marketing campaigns.
- **Artificial intelligence.** AI technologies, such as Salesforce Einstein, have been built into CRM platforms to automate repetitive tasks, identify customer-buying patterns to predict future customer behaviours and more.
- **Project management.** Some CRM systems include features to help users keep track of client project details such as objectives, strategic alignment, processes, risk management and progress.
- **Integration with other software.** Many CRM systems can integrate with other software, such as call centre and enterprise resource planning (ERP) systems.

Types of CRM Technology

The four main vendors of CRM systems are Salesforce, Microsoft, SAP and Oracle. Other providers are popular among small to midsize businesses, but these four tend to be the choice for large corporations. The types of CRM technology offered are as follows:

Cloud-based CRM

With CRM that uses cloud computing, also known as SaaS (software as a service) or on-demand CRM, data is stored on an external, remote network that employees can access anytime, anywhere there is an internet connection, sometimes with a third-party service provider overseeing installation and maintenance. The cloud's quick, relatively easy deployment capabilities appeal to companies with limited technological expertise or resources.

Data security is a primary concern for companies using cloud-based systems, as the company doesn't physically control the storage and maintenance of its data. If the cloud provider goes out of business or is acquired by another company, an enterprise's data can be compromised or lost. Compatibility issues can also arise when data is initially migrated from a company's internal system to the cloud.

Companies might consider cloud CRM as a more cost-effective option. Vendors typically charge the user on a subscription basis and offer the option of monthly or yearly payments. However, cost may still be a concern, because paying subscription fees for software can be more costly over time than with on-premises models.

Popular cloud-based CRM providers include Salesforce, HubSpot and Zendesk.

On-premises CRM

This system puts the onus of administration, control, security and maintenance of the database and information on the company using the CRM software. With this approach, the company purchases licenses upfront, instead of buying yearly subscriptions from a cloud CRM provider. The software resides on the company's own servers and the user assumes the cost of any upgrades. It also usually requires a prolonged installation process to fully integrate a company's data. Companies with complex CRM needs might benefit from an on-premises deployment. Many cloud-based providers, such as Salesforce and WorkWise, also offer on-premises versions of their CRM software.

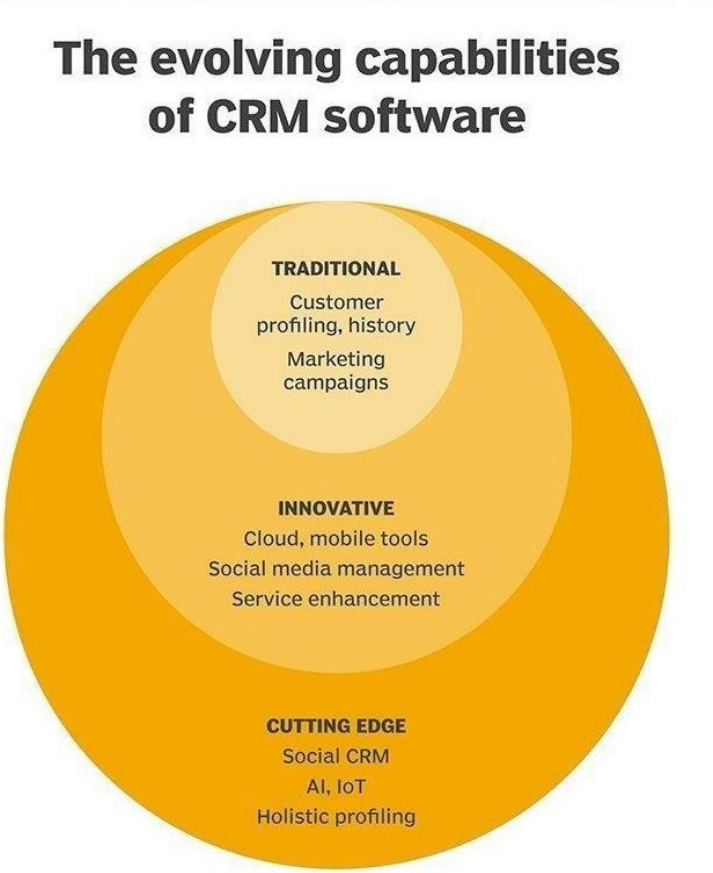


Fig 6.1: Evolving capabilities of CRM software

Open source CRM

An open-source CRM system makes source code available to the public, enabling companies to make alterations at no cost to the company employing the system. Open-source CRM systems also enable the addition and customization of data links on social media channels, assisting companies looking to improve social CRM practices.

Open Sources CRM platforms such as OroCRM, Bitrix24, SuiteCRM and SugarCRM offer alternatives to the proprietary platforms from Salesforce, Microsoft and other vendors.

Adoption of any of these CRM deployment methods depends on a company's business needs, resources and goals, as each has different costs associated with it.

CRM examples in practice

Examples of CRM usage vary by the type and purpose of the specific CRM system.

Contact Centre

Traditionally, data intake practices for CRM systems have been the responsibility of sales and marketing departments, as well as contact centre agents. Sales and marketing teams procure leads and update the system with information throughout the customer lifecycle, and contact centres gather data and revise customer history records through service calls and technical support interactions.

Social CRM

Social media in CRM involves businesses engaging with customers directly through social media platforms, such as Facebook, Twitter and LinkedIn. Social media presents an open forum for customers to share experiences with a brand, whether they are airing grievances or promoting products.

To add value to customer interactions on social media, businesses use various social CRM tools that monitor social media conversations -- from specific mentions of a brand to the frequency of keywords used -- to determine their target audience and which platforms they use. Other tools are designed to analyze social media feedback and address customer queries and issues.

Companies are interested in capturing customer sentiments, such as the likelihood they will recommend products and their overall customer satisfaction, to develop marketing and service strategies. Companies try to integrate social CRM data with other customer data obtained from sales or marketing departments to get a single view of the customer.

Another way in which social CRM adds value for companies and customers is through customer communities, where customers post reviews of products and can engage with other customers to troubleshoot issues or research products in real-time. Customer communities can provide low-level customer service for certain kinds of problems and reduce the number of contact centre calls. Customer communities can also provide new product ideas or feedback that companies can use instead of feedback groups.

Mobile CRM

CRM applications built for smartphones and tablets have become a must-have for sales representatives and marketing professionals who want to access customer information and perform tasks when they are not physically in their offices. Mobile CRM apps take advantage of features that are unique to mobile devices, such as GPS and voice recognition capabilities, to give sales and marketing employees access to customer information from anywhere.

Business-to-business (B2B) practices

A CRM system in a B2B environment helps monitor sales as they move through the sales funnel, enabling a business to address any issues that might come up during the process. CRM systems in the B2B market help create more visibility into leads and, therefore, increase efficiency throughout the sales process.

CRM challenges

For all of the advancements in CRM technology, without the proper management, a CRM system can become little more than a glorified database in which customer information is stored. Data sets need to be connected, distributed and organized so that users can easily access the information they need.

Companies may struggle to achieve a single view of the customer if their data sets are not connected and organized in a single dashboard or interface. Challenges also arise when systems contain duplicate customer data or outdated information. These problems can lead to a decline in customer experience due to long wait times during phone calls, improper handling of technical support cases and other issues.

CRM systems work best when companies spend time cleaning up their existing customer data to eliminate duplicate and incomplete records before they supplement CRM data with external sources of information.

6.3 MARKETING RESEARCH and the SERVICE Firm

Market research is the process of evaluating the viability of a new service or product through research conducted directly with potential customers. Market research allows a company to define its target

market and get opinions and other feedback from consumers about their interest in a product or service.

The research may be conducted in-house or by a third-party company that specializes in market research. It can be done through surveys, product testing, interviews, and focus groups. Test subjects are usually compensated with product samples or paid a small stipend for their time.

Before introducing a new product, companies conduct market research to determine its appeal to potential customers.

Market research tools include focus groups, telephone interviews, and questionnaires.

The results of market research inform the final design of the product and determine how it will be positioned in the marketplace.

Market research usually combines primary information, gathered directly from consumers, and secondary information, which is data available from external sources.

Primary vs. Secondary Market Research

Market research usually consists of a combination of:

- Primary research, gathered by the company or by an outside company that it hires
- Secondary research, which draws on external sources of data

Primary Market Research

Primary research generally falls into two categories: exploratory and specific research.

Exploratory research is less structured and functions via open-ended questions. The questions may be posed in a focus group setting, telephone interviews, or questionnaires. It results in questions or issues that the company needs to address about a product that it has under development.

Specific research delves more deeply into the problems or issues identified in exploratory research.

Secondary Market Research

All market research is informed by the findings of other researchers about the needs and wants of consumers. Today, much of this research can be found online.

Secondary research can include population information from government census data, trade

association research reports, polling results, and research from other businesses operating in the same market sector.

Example of Market Research

Many companies use market research to test new products or get information from consumers about what kinds of products or services they need and don't currently have.

For example, a company that's considering starting a business might conduct market research to test the viability of its product or service. If the market research confirms consumer interest, the business can proceed confidently with its business plan. If not, the company can use the results of the market research to make adjustments to the product to bring it in line with customer desires.

Types of Market Research

Face-to-Face Interviews

From their earliest days, market research companies would interview people on the street about the newspapers and magazines that they read regularly and ask whether they recalled any of the ads or brands that were published in them. Data collected from these interviews were compared to the circulation of the publication to determine the effectiveness of those ads.

Market research and surveys were adapted from these early techniques.

Focus Groups

A focus group is a small number of representative consumers chosen to try a product or watch an advertisement.

Afterwards, the group is asked for feedback on their perceptions of the product, the company's brand, or competing products.

Phone Research

The man-on-the-street interview technique soon gave way to the telephone interview. A telephone interviewer could collect information more efficiently and cost-effectively.

Telephone research was a preferred tactic of market researchers for many years. It has become much more difficult in recent years as landline phone service dwindles and is replaced by less accessible mobile phones.

Survey Research

As an alternative to focus groups, surveys represent a cost-effective way to determine consumer attitudes without having to interview anyone in person. Consumers are sent surveys in the mail, usually with a coupon or voucher to incentivize participation. These surveys help determine how consumers feel about the product, brand, and price point.

Online Market Research

With people spending more time online, market research activities have shifted online as well. Data collection still uses a survey-style form. But instead of companies actively seeking participants by finding them on the street or cold calling them on the phone, people can choose to sign up and take surveys and offer opinions when they have time.

This makes the process far less intrusive and less rushed, since people can participate on their own time and of their own volition.

How to Do Market Research

The first step to effective market research is to determine the goals of the study. Each study should seek to answer a clear, well-defined problem. For example, a company might seek to identify consumer preferences, brand recognition, or the comparative effectiveness of different types of ad campaigns.

After that, the next step is to determine who will be included in the research. Market research is an expensive process, and a company cannot waste resources collecting unnecessary data. The firm should decide in advance which types of consumers will be included in the research, and how the data will be collected. They should also account for the probability of statistical errors or sampling bias.

The next step is to collect the data and analyze the results. If the two previous steps have been completed accurately, this should be straightforward. The researchers will collect the results of their study, keeping track of the ages, gender, and other relevant data of each respondent. This is then analyzed in a marketing report that explains the results of their research.

The last step is for company executives to use their market research to make business decisions. Depending on the results of their research, they may choose to target a different group of consumers, or they may change their price point or some product features.

Benefits of Market Research

Market research is essential for developing brand loyalty and customer satisfaction. Since it is unlikely for a product to appeal equally to every consumer, a strong market research program can help identify the key demographics and market segments that are most likely to use a given product.

Market research is also important for developing a company's advertising efforts. For example, if a company's market research determines that its consumers are more likely to use Facebook than Twitter, it can then target its advertisements to one platform instead of another. Or, if they determine that their target market is value-sensitive rather than price-sensitive, they can work on improving the product rather than reducing their prices.

6.4 SCOPE OF MARKETING RESEARCH IN SErvices



Fig 6.2: Scope of Marketing Research

1. Product Research

Product means the goods and services which are sold to the consumers. It includes consumer products and industrial products. Product research studies the individual product. It studies the making and marketing of the product. It studies the colour, size, shape, quality, packaging, brand name and price of the product. It also deals with product modification, product innovation, product life cycle, etc. The product is modified (changed) as per the needs and wants of the consumers. Therefore, the product will not fail in the market.

2. Consumer Research

A consumer is a person who purchases goods and services. The consumer is the king in the market. Consumer research studies consumer behaviour. It studies the consumer's needs, wants, likes, dislikes, attitude, age, sex, income, location; buying motives, etc. This data is used to make decisions about the product, its price, place and promotion.

3. Packaging Research

Packaging research is a part of product research. It studies the package of the product. It improves the quality of the package. It makes the package more attractive. It makes the package more convenient for consumers. It reduces the cost of packaging. It selects a suitable packaging method. It also selects suitable packaging material.

4. Pricing Research

Pricing Research studies the pricing of the product. It selects a suitable method of pricing. It fixes the price of the product. It compares the company's price with the competitor's price. It also fixes the discount and commissions which are given to middlemen. It studies the market price trends. It also studies future price trends.

5. Advertising Research

Advertising research studies the advertising of the product. It fixes the advertising objectives. It also fixes the advertising budget. It decides about the advertising message, layout, copy, slogan, headline, etc. It selects suitable media for advertising. It also evaluates the effectiveness of advertising and other sales promotion techniques.

6. Sales Research

Sales research studies the selling activities of the company. It studies the sales outlets, sales territories, sales forecasting, sales trends, sales methods, effectiveness of the sales force, etc.

7. Distribution Research

Distribution research studies the channels of distribution. It selects a suitable channel for the product. It fixes the channel objectives

It identifies the channel functions like storage, grading, etc. It evaluates the competitor's channel.

8. Policy Research

Policy research studies the company's policies. It evaluates the effectiveness of the marketing policies, sales policies, distribution policies, pricing policies, inventory policies, etc. Necessary changes, if any, are made in these policies.

9. International Marketing Research

International marketing research studies the foreign market. It collects data about consumers from foreign countries. It collects data about the economic and political situation of different countries. It also collects data about foreign competitors. This data is very useful for the exporters.

10. Motivation Research

Motivation research studies consumers' buying motives. It studies those factors that motivate consumers to buy a product. It mainly finds out, Why the consumers buy the product? It also finds out the causes of consumer behaviour in the market.

11. Market Research

Market research studies the markets, market competition, market trends, etc. It also does sales forecasting. It estimates the demand for new products. It fixes the sales territories and sales quotas.

12. Media Research

Media research studies various advertising media. The different advertising media are television (TV), radio, newspapers, magazines, the Internet, etc. Media research studies the merits and demerits of each media. It selects suitable media for advertising. It does media planning. It also studies media costs. It helps in sales promotion and to avoid wastage in advertising.

6.5 UNDERSTANDING CUSTOMER EXPECTATIONS

Customer expectations are any set of behaviours or actions that consumers envision when interacting with a company. Today's customers expect customized interactions, omnichannel experiences, frictionless product service, and much more.

What are the different kinds of customer expectations?

Customers' expectations are an aggregation of multiple factors, but a few key elements are recognized as

important influences on customer expectations.

Understanding these expectations is a critical prerequisite to delivering superior service, building brand advocates, and prolonged customer loyalty.

Firstly, let's take a deeper look at the different kinds of customer expectations, and tips on meeting (and exceeding) these expectations.

- Explicit expectations
- Implicit expectations
- Interpersonal expectations
- Digital expectations
- Dynamic performance expectations

Explicit expectations

Explicit customer expectations are those that customers have regarding the quality of the product, performance, and services rendered. For example, a customer may sign up for helpdesk software expecting minimum feature requests or even a specific price range to align with their product/service goals.

Implicit expectations

Let's say you go to a cafe and order a grilled toast. You specify the type of bread and filling preferences. But you also expect the bread and vegetables to be clean and fresh, the preparation to be hygienic, the staff to be courteous, and so on.

This is a classic example of implicit customer expectations. While you may have a decently operating product, you will deliver real value to customers and achieve customer satisfaction when meeting their implicit expectations.

Interpersonal expectations

Interpersonal expectations are what customers expect during person-to-person interactions with their service providers. They are of supreme importance in products that require dedicated customer service. Typically, customers will expect support agents to be experts in their field, friendly, and courteous during

their interactions.

Digital expectations

According to Appnovation's latest consumer research, The Digital Consumer: Shifting Expectations and Digital Readiness, consumers' expectations are changing, accelerated by the COVID-19 pandemic.

Some fundamental attributes of customer expectations in today's digital world include — contextualized communications, product transparency, hassle-free experience across social channels (Facebook, Linkedin, and Twitter), and so on.

According to a study conducted by PwC, 75 per cent of consumers prefer to interact with a real person even as the technology for digital and automated solutions improves (PwC, 2018)

Customers also expect relevant product content readily available to them in the most suitable format on the device of their choosing.

In a study conducted by DMG Consulting, more than 62% of organizations have migrated to a cloud call centre software solution. Successful businesses invest in contact centre technology that empowers them to be efficient in customer service and improve operational costs.

Dynamic performance expectations

Dynamic performance expectations are based on how a product or service is expected to change over time. These could be due to:

- Shifts in the overall environment
- Change in customer needs
- Redefining business goals.
- Customer support, services, or the product itself.

Since customer behaviour and the competitive landscape your business exists in, are evolving simultaneously, the most reliable way to exceed customer expectations is by tracking these expectations and ensuring your business can continuously learn and adapt.

What do customers expect from businesses today?

According to Forrester, nearly 75% of companies want to use customer experience as a competitive advantage over their competitors.

Customer-centric companies understand that resolving customer needs and outperforming expectations along the way is key to driving robust business growth and fostering good relationships with their customers.

While customer-centricity is not a novel concept, the appropriate steps to accomplish a customer service focus are still murky. Here are the fundamentals to get you started:

- Personalization
- Quick response and resolution-time
- Omni-channel availability

1. Personalization:

In the past, customer expectations were all about getting a fast response to their questions or complaints. Now, it's all about personalization. As a result, customers want to be treated like humans and not account numbers and thankfully, technology is on your side in this case.

According to Gladly, 77% of customers recommend a product to friends and family if they provide a more personalized experience.

During their product journey, customers expect you:

- To understand them
- Follow their mindset
- Solve the common problems they face
- Offer a reliable solution

With the Freshdesk contact center's dashboard, you can access your customer's data from past purchases & support experiences to recurring problems or queries, etc. Unifying your customer's information will benefit your whole team. Additionally, your customers will enjoy a more personal and dedicated form of service.

2. Quick resolution-time

In one of the most significant findings in a survey conducted by Freshdesk, speed surfaced as the most critical factor to create delightful customer experiences. From the minute your customer reaches out to you for help, the clock starts ticking. However, it will not stop until your customer is satisfied with your response. In short, that clock measures your _Time To Resolution,' an important customer service metric.

With the help of advanced analytical tools, you can keep track of a customer's preferences and predict their most likely cause for contacting your agents, which in turn, better prepares your business for any inquiries.

Monitoring your Time To Resolution (TTR) can help you to understand shifts in your customers' experiences. For example, it can:

Help you identify conversations that are getting delayed beyond the average time

Assist in classifying more elaborate cases that demand multiple people to work on them.
Call out inefficient internal processes that are correlated to longer resolution times.

3. Omnichannel Solutions

There are several ways to interact with a brand today. It could be through social media, smartphone apps, email, web chat, or talking to a call centre agent by telephone. When a support team is approached via numerous channels, the information from every one of those interactions must be consolidated and made available reliably and securely. Now, that's where omnichannel communication comes in. With an omnichannel approach, agents can map a customer's conversation journey and understand their behaviour. Most omnichannel solutions have robust dashboards that show real-time data on agent-customer interactions through voice, emails, and chat channels.

Access to synchronized information enables call centre managers and executives to get deeper insights into the operations and make informed decisions. Another advantage of an omnichannel is setting automation rules based on the event and time-related triggers — from assigning a conversation to an agent to sending notifications based on a condition.

Customers know what excellent service is, what they can expect and what businesses can provide. These form the fundamentals of customer expectations. When companies understand these expectations, they not just meet them but exceed those expectations and deliver a stellar customer experience.

6.6 SERVICE EXPECTATIONS

10 customer service expectations :

Here are some essentials to keep in mind as you work to understand, meet, and exceed customer expectations for a good customer experience.

1. Personalized experiences

Customers expect to be treated as distinct, unique individuals. This means having a personalized experience across all interactions with your business and encompasses everything from knowing their contact info and preferences to purchase and interaction history.

91 per cent of consumers are more likely to shop with brands that recognize, remember, and provide them with relevant offers and recommendations. By connecting your CRM to your live chat platform and other technology, your agents can address customers by name and offer customized discounts and product recommendations for personalized service.

2. Privacy and data protection

In the U.S., 63 per cent of consumers say they'd share more information with a company that offers a great experience.

However, there's a fine line that businesses need to walk when it comes to personalization and customer privacy. Customers still want control and transparency over the info they use and how they use it. As a result, businesses need to be clear about what data they're collecting and why, as well as provide concrete evidence that the data is safe — by using trust certificates, for example.

3. Omnichannel support

Customers want the convenience of communicating with you on their preferred channel. However, channel preference varies across generations and the complexity of the customer support issue. So, you need to be able to communicate through a range of avenues, including live chat, email, social media, telephone, SMS, your physical store, and more.

But that's only half the story. You also need to ensure the experiences between channels are connected seamlessly. This way, interactions can easily move from one channel to another and flow like one continuous conversation.

To meet these service expectations, integrate your customer service technology and workflow into a single platform and encourage collaboration between agents and departments.

4. Rapid response time

When it comes to online experiences, 94 per cent of consumers cite speed as a key contributor to a great experience. Consumers also list resolving their issues within a single interaction as the most important aspect of a good customer service experience. A couple of ways to offer fast and efficient resolutions are to actively check for complaints across all channels, including social media and review websites, as well as have the technology in place (live chat, for example) to facilitate rapid responses in the first place. It's also important to ensure agents have the knowledge and resources to give customers quick and accurate responses.

5. Self-service options

Self-service customer support is growing increasingly popular — with 90 per cent of survey respondents saying they expect brands and organizations to offer an online portal for self-service.Customers can take advantage of the convenience of using self-service resources, like chatbots, help centres, and community forums to find answers on their own anytime without reaching out to customer support.

6. Proactive customer support

With the amount of customer data available today, customers expect businesses to be proactive — about 70 per cent of people have a more positive view of brands that offer proactive customer service notifications. To implement proactive support, reach out to customers using live chat or chatbots based on certain triggers — for example, if they have spent an unusually long time on a particular page. Also make sure to use the information you have on hand, such as customer behaviour or trending topics in support interactions, as well as keeping any content you provide up to date. You can even actively solicit customer feedback through surveys throughout the customer journey to ask how you can improve the service.

7. Digital innovation

Among the different trends, digital customer expectations are among the fastest rising. Over 3 out of 5, consumers say retail technologies and innovations improved their shopping experience.

As technology evolves, customers expect businesses to incorporate new tech and tools like AI chatbots, VR, AR, and video, to improve customer service processes and efficiency — 72 per cent of customers expect virtual assistance to become more common, along with 68 per cent expecting immersive virtual or augmented reality experiences, for example.

8. User-friendly interactions

The top factors customers attribute to a memorable online experience include up-to-date inventory (listed by 15 per cent of consumers) and ease of usage, such as easy navigation (13 per cent) and user-friendly design (12 per cent).

With more customers going online, it's essential to keep your information and resources up to date with content that's easy to find and relevant to your customers' most frequent questions.

You can also optimize your website's user experience, including mobile experiences, to remove navigational friction and provide clear instructions, calls to action, and ways to reach support or give feedback.

9. Being heard and understood

Only 38 per cent of U.S. consumers say the employees they interact with understand their needs; 46 per cent of consumers outside the U.S. say the same.

When agents interact with customers, it's important to make customers feel listened to and acknowledged. Customer feedback should be noted and acted upon. And the team should keep customers updated to let them know how the problem is being addressed. It also helps to have customer information on hand so agents have a wider context to work within and understand any historical interactions.

10. Transparency and honesty

Transparency is a top tip for customer engagement, as more and more customers want businesses to embody their values. A large majority (62 per cent) of customers say they have stopped buying from a company whose values didn't align with theirs.

This includes genuine and open communication about a product or service and delivering on the promises your solutions advertise.

And, if things go wrong, apologize, accept responsibility, and let customers know what to expect with timing and follow-up while awaiting a resolution.

How to exceed customer expectations

Now that we've looked at different types of customer expectations, here are some practical ways to go above and beyond them to see the benefits of meeting customer expectations.

Understand your customers

To provide a truly efficient and effective customer support experience, you need to know what customers want, their common issues, and how to measure customer expectations.

This can include qualitative research like getting feedback, reading reviews, or following trends in customer support. You can also follow up with customers throughout their journey to ensure that they can

resolve their issues successfully. In addition, you can use CSAT scores and other customer service KPIs.

Leverage technology

The right tools can help with managing customer expectations. With an all-in-one customer support platform, you can organize incoming requests across channels, automate customer support with chatbots, knowledge bases, and other self-service features, and personalize your customer experience with data and analytics.

Embed a customer service mindset into your team culture

To build a consistent and quality customer support experience, create a standard training program for your service representatives. Topics can include how to handle customer interactions and satisfy customer expectations through clear communication, empathy, using chat etiquette, and conveying a friendly and welcoming tone.

Get in front of problems

Once you know customers' needs and expectations, you can get ahead of common issues by empowering customers with resources like tutorials, videos, and walkthroughs. You're bound to exceed customer expectations by anticipating problems before they arise with proactive customer service.

Ever-evolving customer service expectations

When it comes to customers' expectations, it's important to remember that the work is never done. High customer expectations will continue to rise and set an even higher bar for the future.

As long as you strive to stay attuned to these expectations, you can close the gap between them and reality to deliver excellent customer service that adds value for your customers.

6.7 Factors influencing CUSTOMER EXPECTATIONS of SERVICE

Customer expectations management can be very challenging indeed. Your clients and customers will all have their expectations of your business or organisation and these can be enormously varied.

What's more, their expectations will change over time, often becoming more demanding.

Today's customers are more knowledgeable and more critical than ever before. To meet their expectations businesses and organisations need to understand their changing needs and demands and they need to have effective strategies in place that will ensure high levels of customer satisfaction in the future. Ideally, businesses should be anticipating and exceed customer expectations before they are even expressed.

What is Customer Expectation?

Customer expectation encompasses everything that a customer expects from a product, service or organisation. Customer expectations are created in the minds of customers based on their individual experiences and what they have learned, combined with their pre-existing experience and knowledge.

Customers will have both explicit and implicit expectations regarding the product or service which they have purchased. They will have performance expectations which include a dynamic element due to anticipated changes to the product or service over time. Importantly, they will also have interpersonal and service-level expectations which relate directly to the customer relationship and interaction with a business or organisation.

Factors Influencing Customer Expectations

Customer expectations are influenced by a multitude of factors but there are a few key elements which are recognised as important influences on customer expectations.

Previous Customer Experience

One of the most significant factors influencing customer expectations is their prior experience with your organisation. If they are highly satisfied existing customers then this sets a high level of expectation which must be maintained. But if their previous experience has been suboptimal then they may lack confidence in your business and their expectations may be quite low.

Customer Communications

Every piece of outbound communication from your business may have influenced your customer expectations. Blog posts, tweets, web pages, emails, print advertising, and radio and TV advertising all contribute to the expectations that your customers will have. Your communications must be all honest, consistent, clear and unambiguous.

Reviews and Word of Mouth

The internet is a magnificent research tool so you can expect your customers to have carried out research before making their purchase. They will have read reviews of your product or service and they will have potentially read reviews of your business. They may also have read what people are saying in forums and on social media. What they derive from these sources will influence their expectations so you need to be aware of what's being said.

Previous Experience with Other Companies

People's experiences with other companies and organisations greatly influence their expectations. Regardless of whether other companies are in the same niche as yours, these days customers expect the same high levels of great customer service from all businesses and organisations.

6.8 MANAGING CUSTOMER SERVICE EXPECTATIONS

6 Customer Expectation Management Tips

Having an understanding of how customer expectations are formed and how they change over time provides a great foundation for effective customer expectation management. It should be clear that developing an understanding of your customer expectations is vital for business success. It should also be clear how expectations vary. For example, customer expectations in hotels differ greatly from customer expectations from an insurance provider.

Here are some top tips that will help you not only meet their needs but significantly exceed their customer expectations.

Communicate Clearly and Honestly

As noted, your customer expectations will have been influenced by what they have read and possibly seen. Since you have complete control over how you communicate with your customers you should ensure that the information you provide is clear, consistent, complete and honest. Lack of clarity in communications has been widely cited as a significant issue that negatively affects customer experience. Here are some fundamental guidelines:

- Ensure that the information provided on your website is accurate, complete, consistent and always up to date.
- The language used on your website and in all communications must be appropriate for your customers. Don't bamboozle them with technical jargon. Engage them using the right language and tone of voice.
- Your social media communications need to be responsive and timely. What's stated needs to be accurate, honest and positive.
- Advertising and promotion must not be misleading or dishonest.
- Any printed documentation such as brochures, pamphlets and flyers, must be accurate, honest and clear.
- Any video and visual messaging from your organisation needs to be aligned with other communications.
- Service agents and all staff involved in direct customer communications must be appropriately trained and skilled. The information they provide must be consistent with other communication channels and their style and manner must be appropriate.
- Let your customers know how long they need to wait. These days people expect almost instantaneous responses, but this is not always realistic, especially when dealing with a worldwide customer base. Informing your customers of how long they will need to wait can effectively set their expectations and avoid disgruntlement.

Cultivate Loyalty

Fostering customer loyalty is enormously beneficial to all businesses. It costs far less to retain an existing customer than it does to create a new one. And loyal customers can be enormously helpful in identifying and defining changing customer expectations.

Some basic tactics that contribute toward developing customer loyalty include:

- Always personalising communications by using their names.
- Ensuring that each customer is made to feel special.
- Always thank them for their custom and their loyalty.
- Regularly and routinely communicating with them.
- Pay attention to the details which can affect customer expectations.

Monitor Your Market and Beyond

The expectations of your clients and customers will be greatly influenced by what they may have experienced from other businesses in your sector and elsewhere. If a customer has previously used an online ‗chat' facility on another website to get some customer support and they received a response within maybe 30 seconds then they are likely to expect the same from you when you implement an online chat tool. Similarly, if a customer has previously received a fast response via social media from an unrelated organisation or business then they are likely to expect the same level of response from your social media channels.

You need to be aware of these expectations and ideally endeavour to match or beat them. If this is not possible then you need to communicate with your customers to realistically set their expectations.

Be Expert

Your people need to be recognised as experts in what they do and what they are providing. Every member of staff involved in direct customer communications, from front-line service personnel to switchboard operators and sales professionals, needs to be adequately trained and highly confident in their skills and their ability to manage even the most demanding customer expectations.

Always Follow Up

Customer experience can be greatly influenced by whether or not an organisation follows up after initial contact. For example, if a customer has contacted a service desk, via telephone or maybe via an online chat facility, and a resolution to their issue was provided, this should be followed up, possibly via email, to confirm the recommendations provided and that the solution was successful.

Similarly, after a purchase, it's good practice to contact customers to verify that they are satisfied. Simple, easy-to-complete customer satisfaction surveys are a great way to follow up and derive some potentially valuable customer feedback.

Discover and Exceed

By establishing a rapport with your customers you're in a great position to discover their anticipated expectations. What are they looking forward to in the future? What do they expect of the products or services provided by your industry? What are they experiencing elsewhere that is influencing what they expect from you?

Armed with this incredibly valuable insight your business will be able to not only meet their expectations but to significantly exceed them.

Five customer service strategies to follow

1. Openly discuss solutions

Businesses that have highly knowledgeable customer support teams should be well-versed in the solutions to every potential problem and be able to speak to those possibilities quickly. One important way businesses can manage customer service expectations is by openly discussing possible solutions.

By providing various possible resolutions up front, support teams empower their customers to understand the complexity of a particular problem and engage directly on help desk software with its solution.
Additionally, by painting a clear picture of possible results, service teams ensure customers don't have unrealistic expectations of how simple or difficult the resolution will be.

2. Provide clear timelines

Glitches, errors, and bugs in B2B software can be irritating and costly to customers. However, customers will become more angry if they look forward to their problem being solved in a week, and instead wait a week and a half. Businesses can manage customer service expectations by clearly stating how long any particular task will take, to the absolute best of their knowledge, from the moment the customer gets on a customer support call until the resolution is in progress.

Teams should ensure customers are well-informed of not only how long a task will take, but how much time and work is required to get them a solution as quickly as possible. And if a support professional doesn't know how long it will take? Then honesty is always the best prescription.

3. Be customer-first

To truly provide a great customer experience, a business needs to be customer-centric and put the customer first in everything that they do. This also means that businesses must be open and honest. Honesty and transparency are crucial to managing B2B customer service expectations effectively and will affect clients' ability to trust a company.

By remaining honest in every possible situation, businesses can ensure customers remain confident in their partners and have a positive experience. So if a customer service representative doesn't feel confident to correctly address a particular issue, there should be clear and optimized avenues for collaboration and looping in other representatives. Regardless of the situation (or what Gandalf says), support teams should avoid keeping things secret.

4. Understand your customers

It's easiest to manage customer expectations if you know your customer. The better you know your customer, the better you can accurately pinpoint their needs and their wants. The best way to know your customer is with a full 360-degree view that tells your business what a customer needs and wants, how they use your product in the first place, and a whole history of their interactions with your staff on the ticketing management platform, among a slew of other things.

Additionally, by understanding ticketing management system abilities, the complexities of certain problems, and the workload of team members, support experts can gauge how a particular ticket will be solved and the time investment that is required. While it can be nerve-wracking to tell a customer that a problem will take longer than expected to resolve, it is more important to be realistic and honest than set expectations that can't be met.

5. Check in frequently

Finally, support teams can manage customer service expectations by following up after each stage of the resolution process. Customers expect businesses to follow up with them to round out their customer experience. After a customer service agent communicates the potential solutions to a problem and offers realistic timelines, they should follow up and reiterate what was decided. Additionally, customer support teams should always check in with customers as the resolution progresses and once a ticket has been closed.

There are many ways businesses can optimize their customer experience strategies. However, the first step to delivering excellence is to manage expectations effectively from the get-go.

6.9 UNDERSTANDING CUSTOMER PERCEPTIONS

What is customer perception?

Customer perception refers to how a customer feels about a company. This includes their thoughts, emotions and opinions related to a brand and its products or services. Customer perception can be positive or negative.

The customer perception process occurs when customers interact with your brand, products or services. This process includes:

- **Sensing:** The sensing stage involves customers' physical senses, meaning what they see, touch, taste, hear and feel related to your product or services, such as the music playing in the background at a retail store or restaurant.
- **Organizing:** After customers have a sensory experience, their minds organize this information based on their values and beliefs. For example, a customer may consider where to eat for dinner by comparing menu prices, distance from their house and the sustainability practices of different restaurants.
- **Reacting:** The reacting stage is when customers decide to act. This might mean they make a purchase from your company, purchase from another business or don't buy the product.

Why is customer perception important?

Customer perception is important because consumers may be more likely to conduct business with companies they trust. Developing a positive relationship with customers can generate more leads and sales, contributing to company success and longevity.

Customer perception can also impact whether consumers are loyal to your brand or switch to your competitors. By cultivating positive emotions and experiences, you can encourage your customers to come back for repeat purchases. Additionally, customers who value your brand and think highly of it may be more likely to recommend your products or services to others, leading to new sales.

What influences customer perception?

Customer perception can change based on a variety of internal and external factors, such as:

- **Past experiences:** Every interaction a customer has with your brand is an opportunity for you to impact their opinion of your company. Delivering consistently positive experiences can build trust between customers and your brand and lead to a loyal customer base.
- **Price:** Many consumers prioritize price when choosing between service providers. Prices that are too high or too low may detract from the public's perception of your brand, so it's important to incorporate strategic pricing strategies based on market research, competitor practices and your organization's financial needs.
- **Quality:** Product quality can influence customers' perception of your brand. When your product or service exceeds expectations, customers feel like they received a good deal, leading to a positive experience that can make them want to do business with your company again.
- **Usability:** Customers generally prefer products that are easy to use and have clear directions. The ease with which buyers can interact with your products and use them to solve a problem can influence their feelings about your brand, so aim to create products with straightforward, widely accessible language and features that a wide range of users can operate easily.
- **Location:** Customers value convenience, and where your company is located can impact whether certain consumers choose to purchase your products or services. It's best to have a location that's central to your target market and has easy entrance and exit points and convenient parking.
- **Customer service:** Customer service is an important facet of how clients and customers view your business because it can make them feel appreciated, heard and respected. Even when customers have an issue with a product or service, a productive experience with the company's customer care team that solves the problem quickly can leave customers with an overall positive perception of the organization.
- **Marketing:** Your marketing strategies deliver messages to the public about what your company is, what it values and why it's better than the competition. Your audience is receiving these messages from a range of media and can use them to develop an opinion of your brand.
- **Reputation:** The news and stories people hear about your brand can impact their feelings about the business and help build a positive reputation. For example, if your company appears in a news story about a fundraiser for a local charity, this can create positive feelings for viewers, even if they have never shopped with you before.
- **Recommendations:** Recommendations from family members, friends and influencers can affect whether a person purchases your products or services. This is why investing in strategies to improve customers' perception can be worthwhile, leading to an exponential increase in sales and conversions.

How to improve customer perception

Here are five steps your company can take to improve its customer perception:

1. Learn what customers think

Research to learn what the public thinks of your brand, products or services. You can:

- Send out surveys to current customers.
- Purchase a mailing list for your area.
- Post a link on your social media accounts to an anonymous survey.
- Search online for comments and reviews about your company.

Hearing from people in their own words can provide you with a direction for your marketing and public relations initiatives. With these insights, you can target your decisions to the specific areas the public cares about. For instance, if 70% of survey respondents said that they felt your prices are too high, you might consider an alternate pricing or promotion strategy.

2. Apply your research to product development

Once you have an idea of how the public feels about you, you can create products and services that better meet customers' needs. You may consider upgrading existing products to include more features or enhance their usability. You might also launch new products as a response to an unmet need among consumers. For instance, if your company offers custom framing, you might launch a service for measuring and planning gallery walls in customers' homes.

3. Focus on customer service

Exceptional customer service may outrank other considerations, like price and location, as customers are deciding where to make purchases. You can ensure your company's customer service team is prepared to exceed expectations by:

- Creating comprehensive training programs for new employees
- Giving representatives the freedom to come up with reasonable solutions on their own
- Employing secret shoppers to gauge the customer service experience

- Providing surveys for customers to rate their experience
- Rewarding representatives who exhibit the company's values
- Holding regular training sessions that incorporate role-playing scenarios

4. Improve the customer experience

Consider every facet of your customer's experience, from reading the website to visiting the store. Each of these points can positively or negatively affect how clients and customers feel about the business.
Analyze the steps that a customer takes, and identify areas of improvement in each phase. For example, if you work for a hair salon, you can improve the customer experience by:

- Making the lobby comfortable and inviting
- Offering beverages or snacks to clients who are waiting
- Decreasing wait times for clients
- Supplying a range of hair care products in store
- Creating an app and website for clients to make appointments digitally
- Sending reminder emails or texts when it's time for a follow-up service

Your company may also consider hiring a customer experience coordinator who can help determine what steps to take and how to implement new elements successfully.

5. Monitor public persona

After you conduct your initial research, it's important to stay aware of how the public views your brand. Stay engaged on social media and review sites to monitor the conversations around your company's products and services. For larger organizations, it may be helpful to hire a public relations professional or reputation consultant.

6.10 UNIT End Questions

A. Descriptive Questions

Short Questions:

1. What are the different types of customer expectations?

2. Why is CRM important in service industry?
3. What is the scope of the marketing research?
4. What is the impact of customer expectations?
5. Why is it important to understand customer expectations?

Long Questions:

1. What are the factors that influence the customer expectations of service?
2. What are the 4 factors influencing customer satisfaction?
3. What is consumer perception with example?
4. What do you understand by customer perception and expectation?
5. Why is it important to understand customer value perception?

B. Multiple Choice Questions

1. Which among the following is not a factor influencing customer perception of quality before making a purchase?

a) Company's brand name and image

b) Opinions of friends

c) Spare parts availability

d) Published Test Results

2. Which among the following does not fall under the category of factors influencing customer perception of quality before making a purchase?

a) Previous experience

b) Advertised price for performance

c) Store reputation

d) Reliability

3. Which among the following does not fall under the category of factors influencing customer perception of quality at the point of making a purchase?

a) Performance specifications

b) Comments of sales people

c) Warranty provisions

d) Service effectiveness

4. Which among the following is not a factor influencing customer perception of quality at the point of making a purchase?

a) Service and Repair Policies

b) Support Programs

c) Quoted Price for Performance

d) Comparative Performance

5. Which of the following cannot be considered as a technique to gather information about customer needs?

a) Customer meetings

b) Tracking customer complaints

c) Government or Independent Laboratory Data

d) Waiting for customer to come and tell about their needs

Answers

1-c, 2-d, 3-d, 4-d, 5-d

6.11 References

- Lovelock, C., & Wirtz, J. (2007). *Services Marketing: Textbook*. Publisher.
- Lovelock, C., & Wright, L. (1999). *Principles of Service Marketing and Management*. Publisher.
- Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services marketing: Integrating customer focus across the firm.* McGraw-Hill Education.
- Gronroos, C. (2007). *Service management and marketing: A customer relationship management approach* (3rd ed.). Wiley.

Certificate/Diploma Course in

Retail and Sales Management

UNIT – 6 service quality issues and models on service quality issues

STRUCTURE

7.0 Learning Objectives

7.1 Service quality issues and models on service quality issues

7.2 Service quality model: Gap model of service quality

7.3 The service traingle Management/Marketing Model

7.4 SERVQUAL MODEL DIMENSIONS of service quality and importance of quality

7.5 Unit end questions

7.6 References

7.0 Learning Objectives

After studying this unit, you will be able to:

- Outline the basics of service quality issues.
- Summarize the service quality issues.
- Summarize the Gap model.
- Describe abot the SERVQUAL MODEL.

7.1 service quality issues and models on service quality issues

Service Quality issues and Models on Service Quality Service Quality Issues.

Service quality model describes how to achieve desired quality in services. Achievement of desired quality in services differs from tangible products, because the evaluation is based on expectations and

attitudes more than data about reliability. There are multiple service quality models. The most popular are described below. In this article we discuss Servqual, Servperf, RATER, Grönroos, Gummesson, Importance-Performance (Martilla & James) models.

A service quality model is a framework or set of guidelines that organizations use to measure and improve the quality of their services. It typically includes a set of dimensions or factors that are used to evaluate service quality, such as reliability, responsiveness, assurance, empathy, and tangibles. The model may also include a method for gathering customer feedback and using it to identify areas for improvement. Some examples of service quality models include the SERVQUAL model and the RATER model.

SERVQUAL model on managing service quality

SERVQUAL is a method to identify and solve problems related to quality of services. It was presented by A. Parasuraman, V. Zeithaml and L. Berry in 1988. The main idea is based on 5 gaps, which result in lower than expected quality of services. The method was one of the first tools created to evaluate and improve quality of services. Therefore, is became popular very soon.

The 5 gaps are:

- **Gap 1**: The gap between customer expectations and management perceptions of service quality. This gap occurs when management does not accurately understand what customers expect from the service they are receiving. For example, a hotel management might not understand that customer's expectation of fast check-in processas they might not have surveyed them.
- **Gap 2**: The gap between management perceptions and service delivery. This gap occurs when management has a clear understanding of customer expectations, but the service delivered does not meet those expectations. For example, a restaurant might promise to provide fast service, but the kitchen takes longer to prepare the meals than expected.
- **Gap 3**: The gap between service delivery and external communications. This gap occurs when a service is delivered as promised, but the way it is communicated to customers does not match their expectations. For example, an airline might promise a comfortable flight experience, but the way the staff interacts with customers might be rude.
- **Gap 4**: The gap between service delivery and internal communication. This gap occurs when different departments or employees within an organization have different understandings of how the service should be delivered. For example, the customer service representative might

promise a service that the technical support team is not able to deliver.

- **Gap 5**: The gap between customer expectations and perceived service. This gap occurs when customers perceive the service they received to be of lower quality than they expected. For example, a customer might expect a high level of service from a luxury hotel, but might not be satisfied with the level of service they received due to small mistakes made by the staff.

SERVPERF model

The SERVPERF model, also known as the Service Performance model, is a framework for measuring service quality. It is based on the idea that service quality can be measured by comparing the expectations of customers with the perceptions of the service received.

The model includes two main components:

1. **Expectations**: This is the level of service that customers expect to receive. It is determined by surveying customers and asking them to rate their expectations of different service dimensions, such as reliability, responsiveness, and tangibles.
2. **Perceptions**: This is the level of service that customers perceive they have received. It is determined by surveying customers and asking them to rate their perceptions of the service received on different dimensions.

The SERVPERF model is similar to the SERVQUAL model, in that it compares customer expectations with perceptions of service received. However, the SERVPERF model is more focused on measuring the specific performance of the service provider, rather than identifying gaps in service quality.

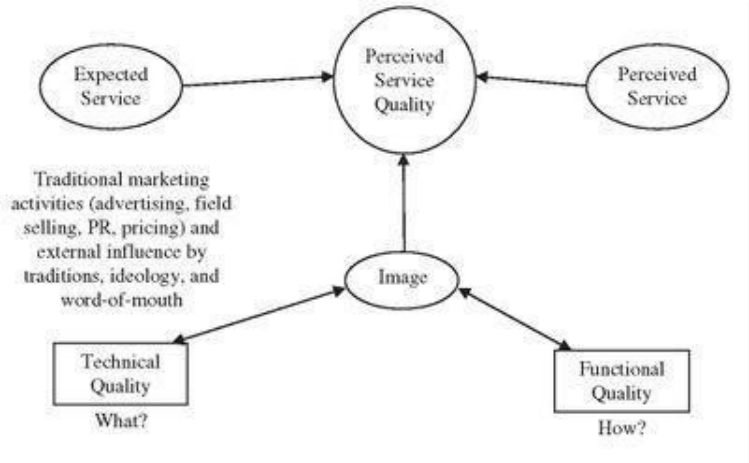
The model can be used to measure the service quality of any organization, in any industry. It can help organizations to identify areas where they are performing well and areas where they need to improve. The results of the SERVPERF can be used to inform decisions about how to improve service quality and customer satisfaction.

RATER model

RATER model is an evolution of SERVQUAL method presented by A. Parasuraman, V. Zeithaml and L. Berry in 1988. The main idea is based on 5 gaps, which result in lower than expected quality of services. The authors proposed that the difference between expected and perceived quality should be evaluated in 5 dimensions:

1. **Reliability**: This dimension refers to the consistency and dependability of the service provided. For example, a bank's reliability dimension would be high if customers can depend on the bank to always have the correct account information and to process transactions correctly and on time.
2. **Assurance**: This dimension refers to the level of confidence that customers have in the service provided, as well as the knowledgeand courtesy of the service provider. For example, a doctor's office that has a high level of assurance would have knowledgeable staff that can answer patients' questions and provide them with a sense of security and trust.
3. **Tangibles**: This dimension refers to the physical evidence of the service provided, such as the appearance of the facility, the appearance of the staff, and the equipment used. For example, a car rental company's tangibles dimension would be high if their cars are well-maintained and the rental facility is clean and well-organized.
4. **Empathy**: This dimension refers to the level of individualized attention and care provided by the service provider. For example, a customer support representative's empathy dimension would be high if they are able to listen carefully to the customer's concerns and provide personalized solutions.
5. **Responsiveness**: This dimension refers to the service provider's willingness to help customers and their ability to provide service promptly. For example, an emergency room's responsiveness dimension would be high if the staff is able to provide medical attention quickly and efficiently.

Grönroos model



The Grönroos service quality model, developed by Christian Grönroos, is a framework that identifies two key dimensions of service quality: functional quality and technical quality.

- **Functional quality**: This dimension refers to the outcome of the service provided. It is the degree to which the service meets the needs and expectations of the customer. For example, a functional quality of a transportation service would be that it arrive on time, be safe and comfortable, and take the most efficient route.
- **Technical quality**: This dimension refers to the process of delivering the service. It is the degree to which the service is delivered in an efficient and effective manner. For example, a technical quality of a restaurant service would be that the food is prepared properly, the kitchen is clean, and the staff is well-trained.

In the Grönroos service quality model, image is not considered as a separate dimension, but it can be seen as a subset of the tangibles dimension. Image is defined as the overall impression that a customer has of an organization, and it is closely related to the physical appearance of the service providers and the service facility. It's also related to the branding and reputation of the organization.

In Grönroos's model, tangibles are considered an important aspect of service quality as they are the visible and tangible elements of the service and can have a significant impact on customers' perceptions of service quality. Image is one of the element that contributes to the tangibles dimension of the service quality.

For example, a luxury hotel's image would be high if the hotel is well-maintained, the staff is well-dressed and the branding and reputation are strong. A good image can contribute to the customers' positive perceptions of the service quality and increase their trust in the service provider.

It's important to note that image is not the only element that contributes to the tangibles dimension, other aspects like physical facilities and equipment also play a role.

This model highlights the importance of both the service outcome and the service delivery process in determining overall service quality. It also emphasizes that both technical and functional quality have to be met for customers to be satisfied.

The model is a good measurement tool for quality of services assessment. However the relationship between perceived quality and customer satisfactionand above mentioned dimensions is not clear.

Gummesson model

The Gummesson model, developed by Evert Gummesson, is a framework for understanding and

managing service relationships. The model is based on the idea that service is a process of creating and maintaining relationships between organizations and their customers. The model consists of four key elements:

- **Contact persons**: These are the individuals who interact with customers and represent the organization. They include both employees and external partners.
- **Relationships**: These are the interactions and connections between the organization and its customers. They include both formal and informal exchanges, such as communication, transactions, and feedback.
- **Service systems**: These are the structures and processes that support the delivery of the service. They include both internal systems, such as policies and procedures, and external systems, such as technology and infrastructure.
- **Outcomes**: These are the results of the service, such as customer satisfaction, loyalty, and retention.

According to Gummesson, successful service relationships are built on a foundation of trust, mutual understanding, and shared goals. He also emphasizes the importance of communication and collaboration in building and maintaining these relationships.

In the Gummesson model, customer's perception of service quality is not only determined by the service outcome but also by the service relationship. The model highlights the importance of building and maintaining a positive relationship with the customers to achieve a high level of service quality.

The Gummesson model includes four dimensions of service quality, which are:

1. **Designed quality**: This dimension refers to the quality of the service that is intended to be provided. It is the quality that the service provider has planned and designed for the customers. It includes the features, functions, and characteristics of the service, as well as the service level agreements and standards that have been established.
2. **Product quality**: This dimension refers to the quality of the service that is actually provided to the customer. It is the quality that the customer experiences and perceives. It includes the tangible and intangible elements of the service, such as the quality of the physical service, the quality of the service interaction, and the quality of the service outcome.
3. **Delivery quality**: This dimension refers to the quality of the service delivery process. It is the quality that the customer experiences and perceives. It includes the quality of the

service system, the quality of the service interactions, and the quality of the service environment.

4. **Relational quality**: This dimension refers to the quality of the relationship between the service provider and the customer. It is the quality that the customer experiences and perceives. It includes the quality of the communication, the quality of the trust, the quality of the mutual understanding, and the quality of the shared goals.

The Gummesson model emphasizes that service quality is multidimensional and it's important to take into account all the four dimensions to achieve a high level of service quality.

Importance-Performance model (Martilla & James)

The Importance-Performance model, also known as the Martilla and James model, is a framework for evaluating and improving service quality presented in 1977. It is based on the idea that service quality can be measured by comparing the importance that customers place on a particular service dimension with the performance of the service provider on that dimension.

The model includes two main components:

1. **Importance**: This is the level of importance that customers place on each service dimension. It is determined by surveying customers and asking them to rate the importance of different service dimensions, such as reliability, responsiveness, and tangibles.
2. **Performance**: This is the level of performance of the service provider on each service dimension. It is determined by surveying customers and asking them to rate the service provider's performance on different dimensions.

The Importance-Performance model is visualised as a matrix where service dimensions are plotted on the X-axis and the Y-axis. Each dimension is plotted as a point on the matrix, with the X-coordinate representing the dimension's importance and the Y-coordinate representing the dimension's performance. There are four possibilities:

- Quadrant 1. high performance, high importance - keep up the good work
- Quadrant 2. high performance, low importance - possible overkill
- Quadrant 3. low performance, low importance - low priority

- Quadrant 4. low performance, high importance - concentrate here

The model can help organizations identify areas where they are performing well and areas where they need to improve. For example, if a dimension is rated as high in importance but low in performance, that dimension is considered a priority area for improvement.

7.2 service quality MODELS: GAP model OF SERVICE quality

For the product quality, Garvin provided eight dimensions of quality.

The Servqual model (also called the gap model) was developed by American authors A. Parasuraman, Valarie A. Zeithaml and Len Berry. In general, the SERVQUAL model identifies the principal dimensions of service quality.

Initially, there were ten dimensions of service quality identified. However, later these were reduced to 5 as some of these dimensions were auto-correlated. These five dimensions of service quality are Reliability, Assurance, Tangibility, Empathy, and Responsiveness.

RATER Framework - Elements of Service Quality

According to the SERVQUAL model, a service provider must be able to provide five critical elements of service: **reliability, responsiveness, tangibility, assurance, and empathy.**

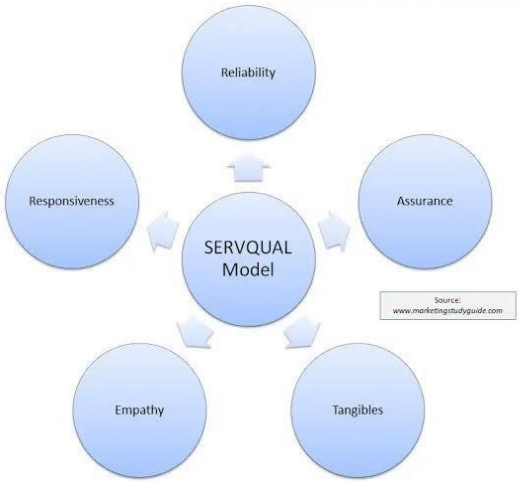


Fig 7.2: SERVQUAL Model

These five elements can be abbreviated as RATER.

1. Reliability

Reliability means the degree to which a service can be relied upon to produce the desired result or outcome at any given time. This measures the consistency of services provided by an organization. If an organization offers consistent services, then it will have high reliability.

2: Assurance

Assurance means the level of confidence that a customer has about the quality of service.

3: Tangibility

Tangibility means the physical appearance of the product or service provided by the organization. It includes things like cleanliness, neatness, and appearance.

4. Empathy

Empathy means the ability of an organization to understand what its customers want and need.

5: Responsiveness

Responsiveness refers to how quickly a service responds to customers' needs.

In general, these five dimensions are considered representative of the dimensions of service quality for different types of services.

SERVQUAL Model: 5 Gaps

In order to provide services, companies must be aware of what their clients expect from them. Therefore, the SERVQUAL model identifies five gaps that can occur between the client's expectations and the services provided by the organization. These include:

Gap 1. Knowledge gap

A gap in the service arises if the organization is not aware of what customer wants. If the organization fails to understand customers' expectations, it will prevent them from serving customers better.

Gap 2. Standards gap

The organization has already formulated its ideas about what kind of services the customer wants. These ideas do not match up with what customers really want. There is, therefore, a high chance that the organization will translate them incorrectly into a quality policy and set of rules.

Gap 3. Delivery gap

Let's assume that the organization has clearly understood what the customer wants (no knowledge gap) and has appropriately formulated the customer's needs into their policies and work processes (no standard gap). Still, there is a possibility that the organization might fail to deliver the service in the planned way. This will be the delivery gap.

Gap 4. Communications gap

To avoid creating false expectations or misleading promises, organizations should ensure that their external communications accurately reflect what they can deliver. Over-promise and under-delivery could raise customer expectations high, and the organization fails to deliver at that standard. This will be the communication gap.

To reduce the risk of communication gaps, organizations should ensure that they communicate clearly about their products or services.

Gap 5. Satisfaction gap

Customers are unhappy because they expect a certain level of service but get something different. Eventually, customers will be dissatisfied with the product or service they receive.

7.3 the service triangle management/marketing model

Marketing is an activity many companies conduct to engage their customers and increase sales. Companies that provide these services might create several subcategories of marketing to ensure employees and customers both contribute to reaching their goals. Learning about the service marketing triangle framework can help you understand how categorizing these elements and relationships can

improve business performance. In this article, we discuss what the service marketing triangle is and share key details about it, like its advantages, elements and how it works.

What is the service marketing triangle?

The service marketing triangle is a framework that defines relationships with companies, their customers, their vendors and their systems. It's a way to show companies how these several components can affect each other. This method of understanding these relationships is common in the service industry and can determine where companies might direct their marketing efforts. Here are three main ways service companies use marketing to reach their business goals after analyzing their service marketing triangle:

- **Interactive marketing**

Interactive marketing is a way to target individuals both within a company and outside a company. This means the company can respond directly to actions that customers take to create a more personalised experience and sell its services. When customers act a certain way, like if they click on an advertisement, a company may send email marketing or promote specific products to leverage the customer's engagement and turn it into a sale.

- **Internal marketing**

Internal marketing is when companies use certain strategies to appeal to their employees. Companies often use internal marketing to promote their business goals or to help employees learn more about its mission and values. Internal marketing can promote employee engagement through this type of marketing with the goal that employees feel like they can contribute to their overall goals or align their values with those of the company.

- **External marketing**

External marketing is the traditional type of marketing where companies create promotions and materials to help sell their services. This includes creating and maintaining a brand that customers recognize and promoting advertisements to appeal to customers. External marketing requires several tools like social sites, partnerships and company elements, like a logo and website.

Advantages of the service marketing triangle

There are several key advantages of the service marketing triangle. It can show companies how these different marketing initiatives and relationships can affect one another. For example, if a company can successfully market its mission and values to its employees, the employees then might be more likely to be successful in providing positive services to individual customers. This creates another advantage where

companies might increase their revenue or profits.

It also helps companies specifically target unique groups of people to create a company with a shared value. Understanding the difference between how a customer interacts with a company and how they interact with an employee can help establish marketing techniques that can be more effective in reaching business goals.

Elements of the service marketing triangle

There are six main elements in a service marketing triangle:

- **Customers**: Customers are those people that buy the products or engage with marketing materials. These can affect how a company adjusts its external marketing or personalised efforts to sell more services.
- **Employees**: Employees are the people within the company turning marketing initiatives into sales. They often use interactive marketing to respond to specific customer requests or they receive internal marketing efforts from the company.
- **Company**: The company is the overall business and the marketing efforts they perform. This element typically creates the internal and external marketing strategies that which customers and employees interact.

How does the service marketing triangle work?

The service marketing triangle works to show you how the different elements interact and the effects of different marketing types. This creates several one-on-one relationships that companies can evaluate to strategize. Some of the common relationships created when creating a service marketing triangle include:

- **Company to customers**

Company to customers typically consists of external marketing efforts. The customer might see the company's website, its social media pages or its promotions and decide how they might interact. hen evaluating this relationship, companies decide if their marketing efforts can help them reach their goals by focusing on showing why customers might need their services over others.

- **Company to employees**

The company to employee relationship helps ensure employees are happy and understand their role in representing their company. Companies might hold events like town halls or seminars to help employees know the current goals and the overall mission they hope to achieve. Building trust through activities like training and benefits can ensure that employees provide positive service to customers.

- **Company to systems**

The company to systems relationship is how a company builds the appropriate systems for employees to perform their duties. This can mean maintaining updated databases, content management systems or invoice-processing tools. This helps companies improve their internal marketing strategies and enables employees to perform better when working with customers.

- **Customers to systems**

Customers to systems is how customers interact with a company's technology. This includes the company's website and e-commerce sites. If these function well and provide a positive user experience, customers might be more likely to shop with the company or engage with their brand again in the future.

- **Employees to systems**

Employees and systems connect as they're the direct users of this technology. These enable them to provide better service to customers with interactive marketing. It also improves their overall attitude and engagement with a company, as systems that work properly can help them fulfil the company's vision.

- **Employees to customers**

Employees to customers is where interactive marketing happens. These are often specific individuals who identify prospects by their actions and engage to provide a specific service. This relationship connects to many of others. If a company shares its clear values and has proper systems for an employee to do their job, employees can provide a better experience to customers.

7.4 SERVQUAL model dimensions of service quality and importance of quality

Service quality is a measure of a business offering services and meeting various customer requirements and expectations. If the level of an organization's service quality is high, it means that customers often find satisfaction in its services, which allows the business to possess a competitive advantage over its competitors. Learning about service quality can help you understand why it has an important role in service management and how it leads to customer loyalty. In this article, we answer 'What is service quality?', explain why it is important for organisations and discuss how to improve it successfully.

What Is Service Quality?

The answer to the question, 'What is service quality?' is it is an organization's ability to fulfill customer

requirements, which helps it differentiate itself from its competitors. When a business offers high-quality service, it may increase its profits and improve its reputation in the market. Compared to a product, which is physical, services are intangible and their assessment by customers may be difficult. Its measure is also the attitude or judgements of customers about the quality of the service. Below are some factors of service quality:

• **Process quality**: Also referred to as operational quality, this factor determines the quality of procedures involved in production processes.

• **Output quality:** Also referred to as technical quality, this factor comes after production and determines what customers receive from service providers.

• **Physical quality:** This focuses on the quality of the product that a customer receives or the quality of support for the products.

• **Interaction quality:** This factor involves relationships between customers and service providers where interactions happen via different communication channels.

• **Organisation quality:** The perception or the reputation of an organisation is organisation quality where customers having faith in a brand is important.

Dimensions Of Service Quality

Availability, communication, competencies, humility, trust, security and understanding are some dimensions of service quality, along with some common ones that are:

- **Reliability**

This dimension of an organization's service quality expands when its services remain reliable and consistent. With this, the organisation offers great customer satisfaction. Reliability focuses on customer interaction, along with the delivery or execution of goods or services. In terms of reliability, the organisation also features quick and efficient problem resolution at a competitive price. A customer has certain expectations of reliable service when buying a product. When companies offer this service reliability, they help ensure that the service meets customer expectations, which may subsequently lead to business growth.

- **Tangibility**

Tangibility is a company's ability to portray its service quality attractively to its customers. It is a company's functional quality that focuses on creating a good impression on customers. A company's high tangible quality may result from the appearance of its different components, like headquarters or

showrooms, outfits of its employees, the marketing materials or the customer service department. For instance, customers may perceive a company's service quality as highly tangible if it has a modern design for its building, which is in a reputable and popular area.

- **Empathy**

This dimension is an organization's ability to offer its services in a manner that makes the company appear empathetic to its customers and their requirements. When a customer believes that a company truly values them, they are more likely to remain loyal to that company. A company may ensure empathy by offering individual attention to its customers. It also conveys to all its employees that they are necessary for the organisation to understand the specific requirements of the customers and offer the best services accordingly.

- **Responsiveness**

A company that offers services promptly to its customers can often ensure customer loyalty and improved business growth. This dimension of service quality focuses on acknowledging, analysing and quickly replying to customer requests, feedback, queries and issues. Responsiveness conveys to customers that the company acknowledges their feedback.

- **Assurance**

Assurance is when customers have confidence in the services of an organisation. It has an important role in the services in which customers may not always have sufficient expertise. This means that there is an element of trust that customers possess in the servicing organizations ability to deliver. Organisations with a growth mindset tell their employees to make efforts that help them gain the trust of their customers, allowing them to achieve a higher level of customer retention.

Importance Of High Service Quality

Here are a few reasons that explain why high service quality is important to an organisation:

• **It increases sales.** A company that offers high service quality has customers who prefer to do business with it, allowing the company to have repeat customers and boost its sales.

• **It reduces marketing costs.** A company may use its funds to attract and gain new customers, but it is typically less expensive when it retains its existing ones by offering high-quality services.

• **It attracts motivated employees.** If a company has high service quality, motivated and skilled professionals may prefer working with that company to find growth in their careers.

• **It offers repeat business.** When customers know that a company's customer service department is always willing to resolve their issues quickly, they are more likely to buy from that company again in the future.

• **It eliminates customers' doubts. A** customer may feel hesitant before purchasing a particular product, but a company's high service quality may convince them to purchase because the customer knows they can trust the company to resolve their issues if they find any.

How To Improve Service Quality?

Below are some steps an organisation may follow to improve its service quality:

1. Understand the customers' requirements

During an issue with a product, a customer may not know the exact problem. In such situations, an organisation that intends to deliver excellent customer service often focuses on understanding the exact issue of its customers based on which it offers a solution. This process involves actively listening to customers and patiently offering problem resolution.

2. Treat customers with respect

There may be times when a customer makes unreasonable requests. In situations like these, a company that remains respectful towards its customers shows its commitment to its business. This courtesy makes customers feel like the company is empathetic to their problems. An organisation may ensure that its customer service department employees understand how to pacify difficult customers to improve their service quality and reputation.

3. Utilize customer feedback to improve

Accepting feedback from customers is a great way for a business to assess its service quality. Through customer feedback, a business recognizes its areas for improvement. When companies acknowledge and implement the suggestions, it shows customers they value their views and may want to modify services to best suit the requirements of their customers. Apart from customer satisfaction, feedback may also improve a company's business functions.

4. Offer a robust customer interaction system

A company that deploys a well-implemented customer interaction system is often better able to register grievances and suggestions. Such a system can enhance business efficiency by processing customer requests quickly and easily. This allows companies to offer a splendid customer experience. All these factors together contribute to customers' perception of the company's service quality.

5. Ensure employees are familiar with company services

A company may ensure that all the employees who interact with customers possess extensive knowledge regarding the company's services. This allows the entire customer service department to explain the various services of the company to customers coherently. This also may enhance the customers' perception of the organization's ability to offer quality services.

Levels Of Customer Service

Here are the four levels that a business commonly employs to categorize the quality of customer service:

- **Unsatisfactory**

When an organisation is unable to meet customer expectations, its customer service becomes unsatisfactory. Many factors contribute to unsatisfactory customer service, like inefficient customer interactions or customer service representatives taking longer than usual to help customers with their issues. Unsatisfactory service quality is also an outcome of companies leaving customer queries unaddressed, which can result in a decline in customers, sales and revenue.

- **Meeting the expectations of customers**

An organisation may ensure business stability by meeting customer expectations. When customers are not consistently registering complaints, it means that the business is successfully meeting its customer's requirements. A business may strive to provide excellent customer service to build a loyal customer base. This makes it important for a business to deliver and improve its service quality consistently to outperform its competitors and retain its customers.

- **Outstanding customer service**

A business taking additional measures to offer high-level service quality may help deliver outstanding customer service. Companies that offer such services already often have loyal customers. Companies that show customers they value them can also offer their customers various benefits apart from high service quality, like discounts, early access to sales, rewards and special offers.

- **Exceeding expectations of customers**

A company may exceed customer expectations when it offers them a memorable experience. To offer such an experience, companies conduct an in-depth analysis of their target audience to understand their customers' complete buying process. The objective of this level is to offer continued exceptional service quality to customers by utilizing every interaction with them.

7.5 Unit End Questions

A. Descriptive Questions

Short Questions:

1. What are the different types of service quality issues in service marketing ?
2. What do you understand by Model Dimensions of Service Quality ?
3. What is Service Triangle Marketing/Management Model ?
4. What is Grönroos model?
5. Why is it important to understand the Gap Model ?

Long Questions:

1. What are the factors that influence the GAP model?
2. What are the 5 issues and models in service quality and it's affects the company's goodwill in market . Explain?
3. What is Model Dimensions of Service Quality And Explain is it's Importance of Quality in service industry?
4. Define SERVQUAL model dimensions of service quality. Expand this model with it's importance, advantages and disadvantages?
5. What do you understand by RATER MODEL?
6. Why is it important to understand about Service Quality . Is understanding service quality an important criteria for a business to follow. Explain in detail.

B. Multiple Choice Questions

1. The service-quality model identifies… ..... gaps that result in unsuccessful delivery.

a) 4

b) 3

c) 5

d) 6

2. Which of the following is not one of the five dimensions that is measured by the SERVQUAL scale?

a) Tangibles

b) Employee satisfaction

c) Responsiveness

d) Assurance

3. What are the five principle dimensions to judge service quality?

a) Reliability, responsiveness, assurance, empathy, tangibles

b) Reliability, respect, assurance, empathy, tangibles

c) Reliability, responsiveness aspects, empathy, tangibles

d) Reliability, responsiveness, assurance, empathy, targets

4. Which of the following is not one of the service process?

a) Physical evidence

b) People processing

c) Possession processing

d) Information processing

5. The following is not ways in which intangibility can be overcome

a) Visualisation

b) Association

c) Documentation

d) Situation

Answers

1-c, 2-b, 3-a, 4-a, 5-d

7.6 References

- Lovelock, C., & Wirtz, J. (2007). *Services Marketing: Textbook*. Publisher.
- Lovelock, C., & Wright, L. (1999). *Principles of Service Marketing and Management*. Publisher.
- Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services marketing: Integrating customer focus across the firm.* McGraw-Hill Education.
- Gronroos, C. (2007). *Service management and marketing: A customer relationship management approach* (3rd ed.). Wiley.