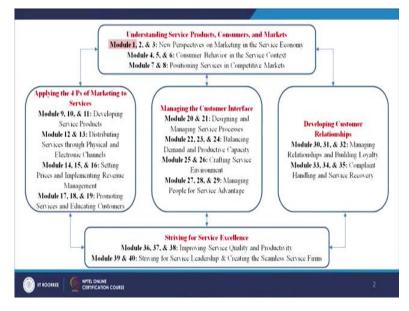
# Service Marketing: Integrating People, Technology, Strategy Professor. Zillur Rahman Department of Management Studies Indian Institute of Technology, Roorkee Lecture 01

# New Perspectives on Marketing in the Service Economy Part 1

Welcome to this course on Services Marketing, I am Zillur Rahman, professor in the Department of Management Studies at IIT Roorkee. Across this course, we will give a special emphasis on integrating people, technology and strategy. Let me explain you why this is important? As you know that competition is changing every day it is becoming more intense and newer competitors are coming with newer technologies.

Now, companies, they have to skill their employees in these new technologies. The employees have to unlearn the older skills and learn new skills. Companies at the same time also have to educate the customers in using those technology and to educate and make them aware of how these new technologies are going to benefit them.

Now, with all these changes, changes happening in the environment, companies also have to then, take these changes into consideration and incorporate them in their strategy, so that they remain relevant to the customers as well as employees. So, this is the uniqueness of this course that also this course we will be talking about how to go about integrating technologies people and a strategy.



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This course is divided into five sections and it has 40 modules. These are those 40 modules and the five sections are. In the first section that is understanding service products, consumers

and market is spread across 8 modules. The second section that is on applying the 4 Ps of marketing to services, it spread from module 9 to 19. The third section is on managing the customer interface that will that will cover module 20 to 29.

The fourth module will be talking about developing customer relationship that spreads from the module 30 to 35 and in the last we will be talking about, in the fifth section is striving for service excellence, this covers module 36 to 40. Now, let us start with the first section that is understanding service products, consumers and market. In the first three module, that is Module 1, 2 and through 3, we will be talking about new perspective on marketing in the service economy.

Let us start with module 1. So, we are not talking on New Perspectives on Marketing in the service economy. So, we will be talking about understanding how services contribute to a country's economy and the principal industries in the service sector. We will then identify the powerful forces that are transforming service markets.



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This is the overview of this course, we will talk about why should why we should study services marketing? And then we will talk about the various definitions of services, we will then move on to the service sector, what are the industries in the service sector?

The categories of service by the types of processing then we will move on to the key trends and then, we will also talk about services for what are the distinct challenges that services for opposes for marketing? And then we will talk about the functions and the service profit chain and how we should put services strategy into action? So, this is this is what we are we will be talking about through these modules.

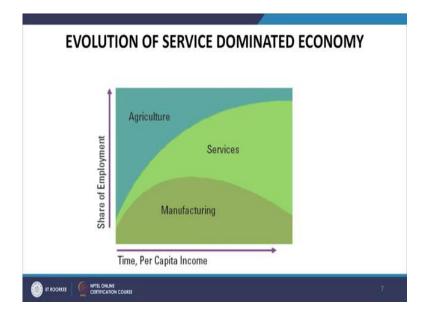
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Now, why we should study services? So, the first important point is that services dominate the global economy. There is an increasing size of service sector across the globe, across the globe across all the countries the size of service sector is increasing and the relative share of employment between agriculture and industry and services is changing dramatically.

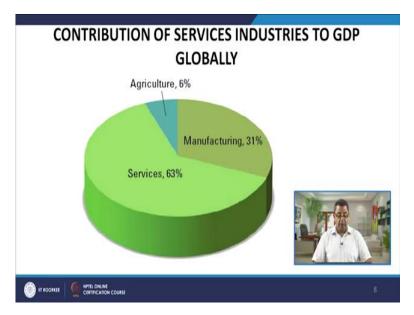
The, this proportion of employment that comes from agriculture or manufacturing or services it is changing and even in emerging economies, the service output is growing rapidly and often represents at least half of the gross domestic product. So, it is about 50 percent of the GDP that comes from services and the rest 50 percent comes from agriculture and industry. So, that is why it is important that we should study services.

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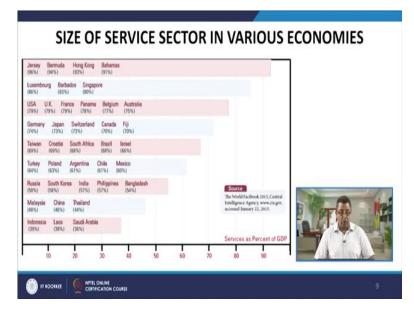
Now look at this, this slide it shows the evolution of service dominated economy. On the x axis we have time and per capita income. So, it moves from left to right and from lower to higher and then on the y axis we have share of employment again it moves from, bottom to the top as we go up. So, now you see that, these services, the contribution of services in the GDP and per capita income has increased tremendously.

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This slide shows the contribution of service industries to the GDP globally. So globally, services account for 63 percent of the global GDP, 31 percent comes from manufacturing, and 6 percent comes from agriculture. So, it is more than 50 percent of the GDP across of the globe that services contribute to.

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This slide shows the size of service sector in various economies. So, you see that on the top we have countries like Bermuda and Hong Kong and Bahamas and at the bottom, we have countries like Indonesia, Laos, and Saudi Arabia.

So, this shows the service as percentage of GDP. So in Bermuda is 94 percent of the GDP while in Saudi Arabia it is 36 percent of the GDP and there are lots of, in India the World Factbook, 2015 shows that it is 57 percent and now it has increased to more than 60 percent.

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The second important point that makes studying of services in important is that most new jobs are generated by services. So, it is not only about the contribution of services in the

GDP, but also the more amount of job that it generates. So, in most countries around the world, new job creation comes mainly from services. There are knowledge based industries such as professional and business services, education and health care. They generate high paid jobs. In fact, this shift in employment to the service sector has been seen as one of the longest and the most stable of the economic trends.

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Many manufacturing firm too have moved from just bundling supplementary services with their physical products to marketing certain elements as standalone services. For example, IBM that was primarily known as a manufacturer has now transformed into a service provider and has become the world's largest business and technology service provider offering management consulting, systems integration and application management services as part of IBM Global Services. So, you see that the manufacturing pure manufacturing firms they are moving towards services as and several of them including IBM have now become a pure service company.

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	Shi	are of Servi	ce Sector in	GDP and Er	nployment			
100 - 75 - 50 - 25 -	53.2	49.7	60.4 61.2	<sup>72</sup> 68.9	79.9 80	79.3 80		
0		China iross Value	Mexico Added (%)		UK oyment (%)			
www.eo	quitymaste	er.com		Source:	Economic S	urvey 2016-17	7	

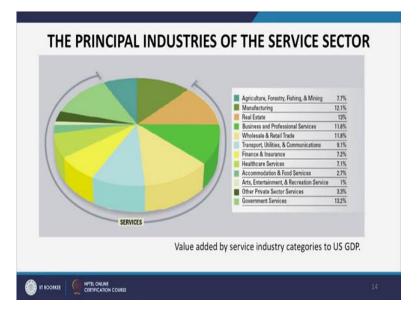
Now, this slide shows the share of service sector in GDP and employment. So, in India, it is the gross value added by services is 53.2 percent and the employment it generates is 28.6 percent, while in U.S they are about the same. The gross value added is 79.3 percent while the employment is 80 percent.

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The third important point for us to study services marketing is that understanding of services will offer personal competitive advantage. So, the distinct characteristics of services and how they affect both customer behavior and marketing strategy will give important insights and perhaps create a competitive advantage for us as not only a customer but also as an employee.

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This is the distribution of principal industries of the service sector. So, agriculture, so, this is agriculture, forestry, fishing and mining that contributes to 7.7 percent then there are government services that contributes to the highest and that is 13.2 percent.

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Now, let us look at some of the powerful forces that are transforming services markets, government policies, business trends, advances in IT etcetera, are among the powerful forces transforming today's service markets. Collectively these forces they reshape demand, supply, competitive landscape and even the way customer buy and use services.

Of these forces the dramatic development of IT and communications is perhaps the most important at the moment. So these powerful forces, they are transforming service markets and the service markets are no longer what they used to be. Because they are reshaping the demand and supply and the competition and therefore, they have all they have also brought about a change in how we as customers buy and use services.

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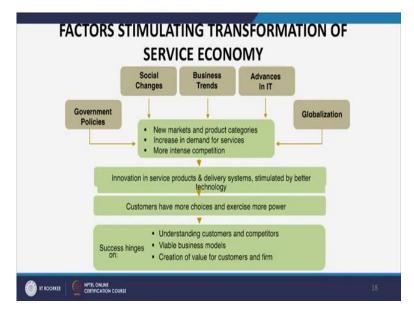
Then innovation in big data, the user generated content, mobile communications and network technology, Artificial Intelligence and app based self service technologies bring their own service revolution. These technologies they enable firms to deepen the relationship with their customers, offer multiple ways information flow, and more personalized services. They improve analytics and improve productivity and therefore improves profitability.

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These technologies also lead to an array of innovative business models. Because of these new technologies. There are different kind of, innovative business models that are coming and the first is peer to peer services. For example, which is also called us P2P, for example, Airbnb for short term accommodation and lending clubs for personal loans. Another important business that has come up is the integrators. For example, Uber connects passengers with independent drivers through their app. Then there are crowd based services. For example, crowdSPRING, a leading provider of logo and graphic design services. So, they source ideas from the crowd and then they provide services based on those ideas.

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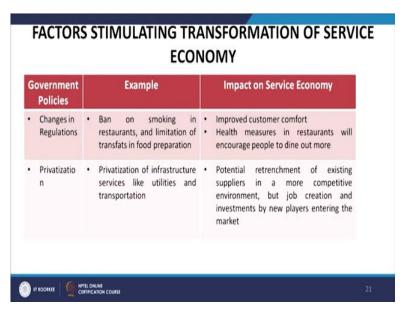


These are the factors that stimulate transformation of service economies, these factors, government policies, the social changes, business trends, advances in IT and globalization, these are the things that have that are there in the external environment and these keep on changing all the time. So the government there is no control and the government keeps on changing the policies.

The society keeps on changing. The trends in businesses keeps on changing. Then there are advances in information technology and all you also know that globalization is happening across the world. So, now this leads to new markets and productive development of new markets and product categories, increasing demand for services and more intense competition. We will talk about each one of these changes in detail in a moment.

Now, this leads to innovation in service products and delivery system is stimulated by better technology, which leads to customers are now having more choices and they exercise more power. Now, the success hinges on understanding customers and competitors, viable business models and creation of value for customer and firms.

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Now look at the changes in regulation. For example, ban on smoking in restaurants and limitation of transfats in food preparation. The impact of this and service economy is that there is improved customer comfort. Healthy measures in restaurants will encourage people to dine out more often. Then privatization for example, privatization of infrastructure services like utilities and transportation, the potential retrenchment of existing suppliers in a more competitive environment, but job creation and investments by new player entering the markets.

FACTORS STIMULATING TRANSFORMATION OF SERVICE ECONOMY Social **Business** Advances Changes Trends In IT Government Globalization Policies · Rising consumer expectations More affluence More people short of time · Increased desire for buying experiences vs. things Rising consumer ownership of high tech equipment · Easier access to information Immigration Growing but aging population 

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Now let us look at what are the social changes that are happening for example, rising customer expectation because the competition is changing more number of competitors are

coming therefore, the customer expectations are rising, more affluent customers, people running short on time, increased desire for buying experiences versus buying of things. Rising consumer ownership of high tech equipment, Easier access to information, Immigration people moving from one place to and growing but aging population.

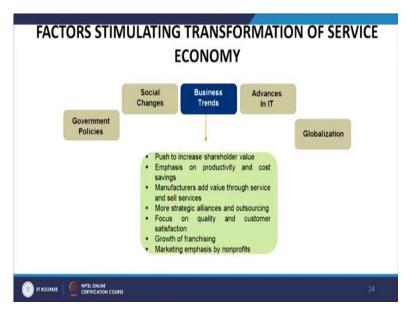
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	Social Changes	Example	Impact on Service Economy
Ū,	Rising consumer expectations	<ul> <li>Higher expectation of service quality and convenience</li> </ul>	<ul> <li>Training of service staff to deliver good service</li> <li>Extended hours offer more part-time job opportunities</li> </ul>
	More affluence	Higher spending on tourism	<ul> <li>Creation of a wide variety of offerings</li> <li>Development of new services in new locations boosts local economies</li> </ul>

Now let us look at look at the examples for these and what are the impact of these on service economy. So, rising customer expectations base that higher expectations of service quality and convenience for the customer. Therefore, that requires training or services staff to deliver good service extended hours often offer more part time job opportunities.

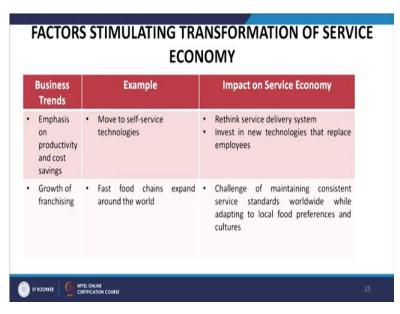
So, people may be working full time somewhere and then they also work part time at another place. More affluence means people have more money. So there the impact of this on service economy is that there is a possibility of creation of wide variety of offerings, development of new services in new locations and that will boost local economies not only in terms of money but also in terms of employment.

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The third factor that is stimulate the transformational service economy are the business trends. That includes push to increase shareholder value, emphasize on productivity and cost savings, manufacturer should add value through service and sell services, there is a need for more strategic alliances and outsourcing. Also there is a need for focus on quality and customer satisfaction, growth of franchising and marketing emphasis by nonprofits. So, now you see that nonprofits are also going into marketing. So marketing is not only for profits, but also for nonprofits.

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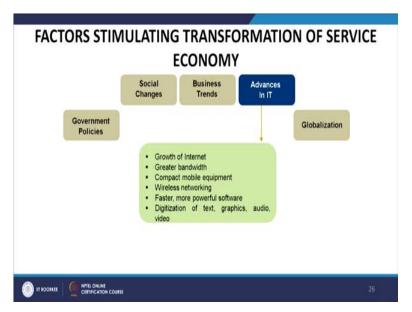


Now, let us look at what are the examples related to these business trends and how each of this business trend is affecting is impacting the service economy. So, let us look at how emphasis on productivity and cost savings affect the service economy. So, there is a move to move towards self service technologies where people use technology or consumer use technology to do things. For example, when we are using an ATM that is a self service technology.

So, therefore, the service companies will have to rethink service delivery system they have to invest in new technologies that replace employees and then you also keep in mind that the technology keeps on changing therefore, there will also be a need to replace these existing technologies with new technologies and that requires lots of money.

Another business trend is the growth of franchising the fast food chain are expanding around the world and that is basically a generally because of the growth in franchising. These fast food companies they normally adopt a franchising model. So, the challenge there is a challenge for maintaining consistent services standard worldwide, while adopting a local food preference and cultures, so the challenges that services standards should remain the same across the world, but at the same time we should be adopting or they should be adopting to the local preferences and culture.

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Another factor that is stimulate the transformation or service economy is the advances in information technology like growth of internet one, then there now we have greater bandwidth. We have now compact mobile equipments that we carry all the time. Then there are wireless networking. So, we have Wans and Bluetooth, etcetera, LAN, wireless networking, faster more powerful softwares then we have now moved to digitization of text, graphics, audio and video.

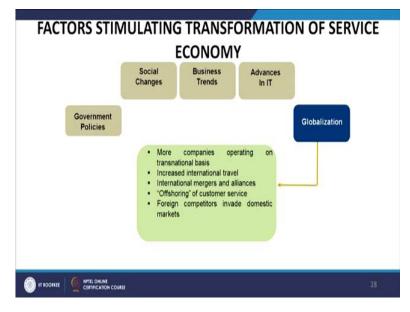
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Advances in IT	Example	Impact on Service Economy		
Growth of internet	<ul> <li>Information at the fingertips of customers, making them more knowledgeable and informed</li> </ul>	<ul> <li>Creation of new services that gather the various sources of information and repackage them to provide value to customers</li> </ul>		
Digitization of text, graphics, audio, and video	<ul> <li>Online download service providers</li> </ul>	<ul> <li>Need for service providers to invest in maintaining a secure and credible website and guarantee virus-free files for download</li> </ul>		

Now let us look at how they affect the service companies and what are examples for each one of them. So, the growth of internet, the example is the information is at the fingertips of customers, making them more knowledgeable and informed. So, they can they can within seconds, they can search and learn lots of things about lots of things about what they want to search for, what they are searching for.

Now, the impact of this on service economy is that it has lead to creation of new services that gather the various sources of information and repackage them to provide value to the customers digitization of text, graphics, audio and video. So, now example is online downloadable service providers. There is a need for service providers to invest in maintaining a secure and credible website and guarantee virus free files for downloading and many a times all these downloads are free of cost.

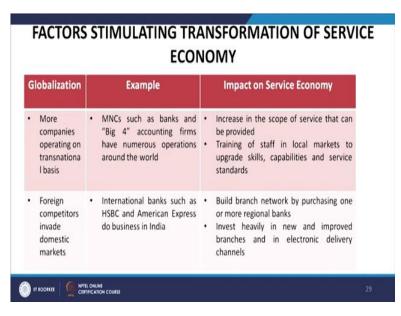
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Yet another force that is transforming the service economy is globalization. Globalization, for example, more and more companies are now operating on a global basis or transnational basis or international basis. The international travel has increased tremendously. International mergers and mergers and acquisitions and alliances are now a normal thing.

It is possible to offshore customer services earlier we would we were into offshoring, offshoring of manufacturing now with, with globalization, offshoring of customer services also possible then there are foreign competitors that invade domestic markets. So, when we are looking at the business environment, it is not only the domestic competitors that we should be worried about, but also foreign competitors because of globalization it is not possible for any company to go into any country. So, that has increased the competition tremendously.

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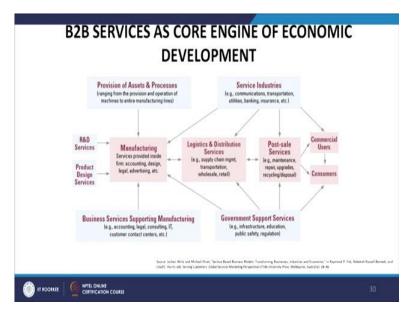
Now, let us look at look at the examples for this. So, more companies are now operating on a global basis. So, there are MNCs such as banks and the Big 4 accounting firms. They have numerous operations around the world and there are various advertising agencies and consulting agencies that have operations across the world.

So, what is the impact of this on service economy. So, this has lead to increasing the scope of services that can be provided. This also needs training of a staff in local markets to upgrade their skills, capabilities and services standards. What happens when foreign competitors invade domestic markets? So, there are international banks such as HSBC and American Express doing business in India.

Now, what does that that means for Indian banks. So, these, these banks they build network by purchasing one or more regional banks. So, they do not have to set up shop from scratch they just acquire or purchase one of the regional banks and then they rebrand them and make them international bank.

So, they invest heavily in new and improved branches and in electronic delivery channels because they because these banks, they have lots of money and they have lots of experience of operating across the world. So, they invest heavily in new and improved branches and electronic delivery channels.

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Now, let us look at B2B services as core engine of economic development. So, we are looking at B2B services and then we will understand how they lead to economic development. So, there are provisions of assets and processes that is ranging from the provisions and operations of machine to entire manufacturing lines.

So, there are various service industries for example communication, transportation, utilities, banking and insurance etcetera. Now, the service industries they give rise to manufacturing logistics and distribution services, post-sale service. So, service for manufacturing means services provided inside the manufacturing firm. For example, accounting, designing, legal and advertising.

So, there are R and D services and product design services, then, there is a need for logistics and distribution services for example supply chain management, transportation, wholesale and retail. So, you keep in mind that even if we are talking of manufacturing, there are lots of services involved.

Then there are post sale service for example, maintenance of machineries and parts and repairs and upgrades recycling and disposal and then these services can be for commercial use or for the end consumers. Then there are certain government support services, for example infrastructure is to be provided by the government, education, public safety and regulations.

Then there are some business services supporting manufacturing. Again, the activities like accounting, legal, consulting, IT, customer contact centers etc. Now these have been adopted from various sources and the source is cited underneath.

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	Outsourcing refers to the contracting of services that were previously conducted internally in an organization to an external service provider. Offshoring refers to services that are conducted in one country and
	consumed in another.
•	Outsourcing and offshoring are independent (e.g., firms can outsource without offshoring to a domestic service provider; or offshore without outsourcing to a foreign subsidiary),
•	But often work in tandem (e.g., a U.Sbased firm outsources a customer contact center to a service provider in the Philippines).

Let us look at what is outsourcing and offshoring. Outsourcing refers to the contracting of services that were previously conducted internally in an organization to an external service providers. So now, we are contracting the services to someone outside the company. Earlier we were doing all those services inside within the company.

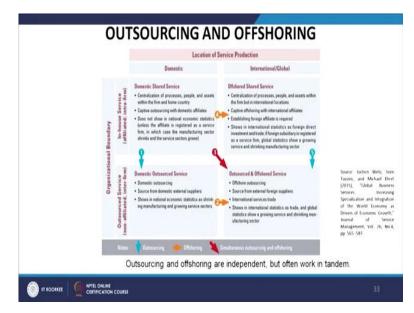
Offshoring refers to services that are conducted in one country and consumed in another. So, these services they are conducted in one country, but then they are to be consumed in some other country. Outsourcing and Offshoring are independent, for example firms can outsource without offshoring to a domestic service provider or offshore without outsourcing to a foreign subsidiary. But they often work in tandem, they often work together. For example, a US based firm outsources a customer contract center to a service provider in Philippines.

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Earlier offshoring was mostly confined to a manufacturing sector. So, now people they offshored manufacture of their goods to some other location. But now it is also becoming common in services. But off late, offshore services have emerged as a dynamic global sector driven by the rise of information and communication technologies and the evolution of global business model. According to McKinsey and Company, about 11 percent of service jobs around the world could be carried out remotely.

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Let us look at how this happens. So, on the one end this is a two by two matrix on one axis we have location of service production and on another axis we have organizational boundary. This organizational boundary has two components one is outsourced service that is nonaffiliated and inter firm and the another component is in house services that is affiliated and within the firm that is intra firm.

Location of service provider can be service production can be domestic or it can be global. So, when the location of service production is domestic and organizational boundaries are in house, that is the services are carried out carried out by an affiliate within the firm then they are called us domestic shared services.

For example, centralization of service processes, people and assets within the company and home country. Captive outsourcing with domestic affiliates and it does not show in national economic statistics, unless the affiliate is registered as a service firm in which case the manufacturing sector shrinks and the service sector grows.

So, that is first, the second is domestic outsourced services. So, the location of service production is domestic. But then now, it is outsourced to a non-affiliated and outside the company. So, this, so this, the source from domestic external suppliers and show in national economic statistics as shrinking manufacturing and growing service sector.

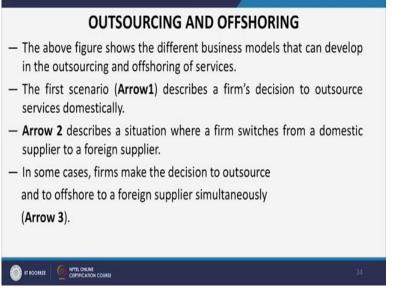
So, this is outsourcing. Then from two we will move to do the third one and that means offshoring. So, we are talking of outsourced and offshore, offshored services that is the fourth

quadrant. So, we are talking of when the location of service production is global and they are outsourced to non affiliate and outside the company.

Now, here the source can be from external foreign suppliers, there can be international services that are traded and it shows in international statistics as trade and global statistics show a growing service and shrinking manufacturing sector. Now, this there can be a company can move from first to second or they can move to do directly to the third. Now, let us talk of offshored shared services that is when the location of service production is global and the organizational boundary is in house services that are provided by affiliated and within the firm.

Now, this leads to centralization of processes, people and assets within the firm. But in international locations, there are captive outsource offshoring with international affiliates, establishing a foreign affiliate is required and shows in shows in international statistics as foreign direct investment in trade. If foreign subsidiaries registered as a firm, global statistics show a growing service and shrinking manufacturing sector. So, the company can move from fifth to third, fourth to fifth, first to second.

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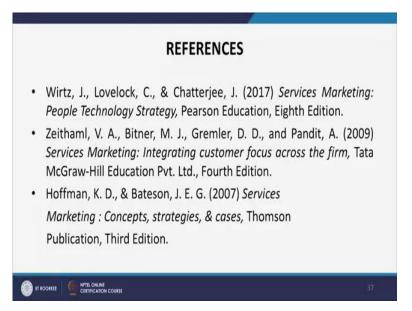
So that figure shows that different business model that can develop in the outsourcing and offshoring of services.

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So the conclusion here is that this module, in this module we have highlighted the importance of services in our economies, we have also identified the various forces. For example, the government policies, business trends and advances in information technology that are impacting the service economy.

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These are the references from where the material for this module has been taken. So these are the three books that we have consulted in making this module. Thank you.